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SESSION 1928
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1—MARCH 22, 1928

WITNESS:

Sir Henry Thornton

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

MEMBERS OF THE COMMITTEE

W. T. GOODISON, ESQ.,
Chairman

MESSIEURS:

Bell, L. G. (St. Antoine),
Cantley, T.,
Chaplin, Hon. J. D.,
Drayton, Hon. Sir H.,
Duff, W.,
Dunning, Hon. C. A.,
Fiset, Sir E.,

Harris, J. H.,
Jelliff, L. H.,
Jenkins, R. H.,
McLean, M. (Melfort),
Milne, R.,
Power, C. G.,
Stevens, Hon. H. H.

E. L. MORRIS,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

TUESDAY, 6th March, 1928.

Resolved,—That Standing Order 63 of the House of Commons, relating to appointment of the Select Standing Committees of the House, be amended by adding to the Select Standing Committees of the House for the present session, a Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and for report to the House, provided, however, that nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bell (St. Antoine), Cantley, Chaplin, Drayton, Duff, Dunning, Fiset, Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, March 21, 1928.

Ordered,—That the preliminary statement of the Accounts of the Canadian National Railways for the year 1927, laid on the Table of the House on Tuesday, March 6, 1928, be referred to the Select Standing Committee on Railways and Shipping.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 22, 1928.

Ordered,—That 500 copies of the minutes of proceedings and evidence taken before the said Committee be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 22, 1928.

Ordered,—That the said Committee be given leave to sit while the House is in session.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 22, 1928.

Ordered,—That the Supplementary Estimates, 1927-28 (Railways and Canadian Government Merchant Marine, Limited), be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS OF THE COMMITTEE

FIRST REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their First Report. Your Committee recommend to the House that 500 copies of their minutes or proceedings and evidence be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

W. T. GOODISON, Esq.,
Chairman.

SECOND REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Second Report. Your Committee recommend that they be given leave to sit while the House is in session.

All of which is respectfully submitted.

W. T. GOODISON, Esq.,
Chairman.

MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,
THURSDAY, March 22, 1928.

The Committee met at 11 o'clock a.m., the following members of the Committee present:

Messieurs: Bell (St. Antoine), Cantley, Drayton, Duff, Dunning, Fiset, Goodison, Jelliff, Jenkins, McLean (Melfort), Milne, Power, and Stevens—13.

The hour for opening the meeting having arrived Mr. Dunning said that he assumed the first business would be the election of a chairman.

Mr. McLean (Melfort) moved, seconded by Mr. Duff, that Mr. Goodison be Chairman of the Committee.

Motion put by the Clerk of the Committee and agreed to.

Mr. Goodison on being declared elected as Chairman assumed his place to preside over the meeting.

The Chairman suggested that he thought it would be advisable to have the matters of printing of the proceedings and evidence arranged at that time.

Mr. Duff moved, seconded by Mr. Cantley—

That the Committee recommend to the House that 500 copies of the minutes of proceedings and evidence taken, be printed from day to day or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto. Motion carried.

Some discussion followed with regard to asking for leave to sit while the House is in session. It was finally decided that it would be advisable to have leave granted, so that if necessary the Committee could sit at any hour without further reference to the House; accordingly,

Sir Eugene Fiset moved, seconded by Mr. Milne—

That the Committee recommend to the House that they be given leave to sit while the House is in session. Motion carried.

Sir Henry Thornton, and a number of his official staff were in attendance; also representatives from the Department of Railways.

The Chairman stated that it had been the usual procedure to hear from Sir Henry Thornton at the opening of the deliberations of the Committee, and have him give his statement. He would therefore have much pleasure on calling upon Sir Henry to give the Committee his statement.

Sir Henry Thornton thereupon proceeded to make his statement, which was followed by questions and general discussion. Several items were discussed and progress made as shown by evidence taken, which follows.

It being near one o'clock reference was made as to when the next meeting of the Committee would be held. Some of the members were in favour of meeting the next day, others, not until after the Easter adjournment. Finally the latter opinion prevailed, and on motion of Sir Henry Drayton it was decided to meet after the adjournment, at the call of the Chair.

Meeting adjourned to the call of the Chair.

E. L. MORRIS,
Clerk of the Committee.

MINUTES OF EVIDENCE

COMMITTEE ROOM 429,
HOUSE OF COMMONS,
THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: The usual procedure is to hear from Sir Henry Thornton at the opening of our deliberations and have him give us his statement. I have much pleasure in calling upon Sir Henry (Thornton) to give us his statement.

Sir HENRY THORNTON: Mr. Chairman and gentlemen: you have before you a pamphlet which represents the financial and other operations of the railways for the past year. The figures included in that report speak for themselves and require very little further explanation.

I may say, however, that there are two things to which I would like to call attention. First, the figures which have been presented to you exclude the operations of the Central Vermont Railway which, because of a disastrous flood which occurred in the autumn of last year, is now in receivership. Secondly, there is likewise excluded from the main account of the Canadian National Railways the operations of the Eastern Lines, so called, which are included in a separate account and will be found in the pamphlet which you have before you. The Eastern Lines have only existed as a separate entity from July 1st.

The railway during the past year has experienced an increase of \$3,200,000, in round figures, in gross earnings, a good deal of which was in freight revenues. That represents a relatively small increase compared with the total amount, and was largely due to the fact that because of the early autumn and the late crop a good deal of the grain which ordinarily would move in the latter part of the year did not move, and that is moving this year, so we will be benefited to that extent this year.

Expenses increased about \$9,000,000. Practically all of that is found in the increased expenses chargeable to Maintenance of Way and Structures and the increased expenses chargeable to Transportation. A large factor in the increase in expenses was the wage increases which were granted during the year and which may be roughly said to approximate something like 7 per cent, and with respect to which some forecast was given when we met a year ago. The administration of the railway does not begrudge that increase, which we think was fair and reasonable, having regard to the general wage situation in Canada and in the United States, and the progressively improved showing which the railway has made for the past five years. However, it did affect the operations this year to an amount represented by about \$4,500,000.

The operations of the railway were further adversely affected by a reduction in freight rates which accounts for about \$1,500,000. With respect to that we have nothing to say other than that the proposed reductions were duly considered by the Railway Commission, were duly argued, all interested parties presented their points of view, and the Railway Commission has made a decision. We have nothing more to say—

Mr. CANTLEY: You are referring to the decreases apart from the Eastern section?

[Sir Henry Thornton.]

Sir HENRY THORNTON: Oh yes, quite. We did not include that—that is water over the dam, but those two items taken together somewhat more than account for a reduction of \$5,790,000 in net. Having regard to the increased wages and the decrease in gross revenue chargeable to Reduced Revenue, the showing may not be considered an unsatisfactory one.

Our situation from a financial point of view was almost precisely that of the Canadian Pacific Railway. They experienced a decrease of \$4,530,000, which curiously enough represents the same percentage of decrease that the Canadian National Railways experienced. Our operating ratio rose from 81.09 to 83.59, the C.P.R. rose from 77.3 to 80.35. In other words, the financial experiences of both roads were more or less the same.

Commencing on July 1st, the Maritime Freight Rates Act came into being and that part of the railway east of Lewis was separated for financial purposes from the rest of the railway, and separate accounts have been kept in connection therewith. All of that will be found in the report, which you have in your hand. That which relates to the Eastern Lines is printed in yellow.

I have nothing further to add, Mr. Chairman, but I venture this suggestion, which I think we followed last year. We have prepared a statement analyzing the different increases in expenses divided into the major sub-divisions of accounts. I suggest that each member of the Committee be furnished with a copy of that which will enable the members to examine it, after which anyone can ask any question they like. I think that will eliminate a lot of unnecessary discussion, and, at the same time, give the Committee complete information to intelligently discuss any question which may come to their mind. We have sufficient copies for the Committee, if that is agreeable. We followed that practice last year. Instead of going through all the accounts item by item and point by point, which involved a good deal of unnecessary time, a statement was given to each member of the Committee, and at a subsequent meeting questions were asked which occurred to the different members of the Committee who wanted illumination on any particular point. Is it the wish of the Committee that the same course be followed this year?

Mr. McLEAN (Melfort): It was very satisfactory last year, and I do not see why it should not work again this year.

Hon. Mr. STEVENS: It certainly will always help to have a summarized statement, Sir Henry (Thornton) and no doubt your staff has been able to summarize this, but it does not preclude any questions which anyone may desire to ask.

Sir HENRY THORNTON: No, far from it. We will welcome any questions any one likes to ask. For instance, without this a great many questions might be asked to which, if this analysis were looked over, an answer might be found.

Hon. Mr. DUNNING: I think they might be distributed. They contain extra information at all events.

The CHAIRMAN: Will you deal with the analysis now, Sir Henry (Thornton)?

Sir HENRY THORNTON: Just as the Committee wishes.

The CHAIRMAN: Members of the Committee, you have heard Sir Henry's (Thornton) general statement. If there are any questions arising out of that statement, perhaps you had better ask them now.

Hon. Mr. STEVENS: I find myself at once, Sir Henry (Thornton) faced with one slight difficulty. For instance, I have a desire to ask about this funded debt, but I am unable to find it in the abbreviated report.

Hon. Mr. DUNNING: That is only an operating analysis, Mr. Stevens.

Sir HENRY THORNTON: What you have here is an analysis of operating expenses. The larger booklet which you have gives all of the accounts, the capitalization, the income account, and everything else. This (indicating

[Sir Henry Thornton.]

analysis) is not designed to cover anything excepting the operating expenses for the year.

Hon. Mr. STEVENS: It does not deal with the balance sheet at all?

Sir HENRY THORNTON: You will find that in the larger pamphlet and no comments have been made upon that. It is left to each individual member to ask any question he likes. We could not conceivably cover all of the questions which would be asked and we thought it better to leave it to the members to look this (indicating analysis) over, and then ask any questions they choose.

Hon. Mr. DUNNING: The funded debt will arise as we go through the accounts. There are pages devoted to it, but we can ask questions about it now, or leave it until that matter is before the Committee.

Hon. Mr. STEVENS: It is on the second page of the main report?

Hon. Mr. DUNNING: The details are away back. You are looking at the summary, Mr. Stevens.

Sir HENRY THORNTON: He is referring to a statement which says "The Funded Debt shows an increase of \$55,900,000 made up as under." Is that it, Mr. Stevens?

Hon. Mr. STEVENS: Yes.

Hon. Mr. DUNNING: The details are on pages 14 to 21.

Mr. McLEAN (Melfort): Regarding the Central Vermont Railway which went into receivership last year; how much of it is owned by the Canadian National Railways—roughly, in percentage?

Sir HENRY THORNTON: About 67 per cent of the stock is owned by the Canadian National.

Mr. McLEAN (Melfort): You allowed this to go into receivership?

Sir HENRY THORNTON: We found it necessary to allow the railway to go into receivership, which, I may say, was an amicable arrangement as far as we were concerned. We did that because we did not think it fair for the Canadian National Railways to provide the necessary funds for the rehabilitation of that property without some consideration on the part of the minority shareholders. In other words, I did not see any reason why we should rebuild a property in which someone else had an interest without a receivership and without wiping out that stock. I may say in that connection that the receivership has worked out very satisfactorily, and has the goodwill of not only the people of Vermont but also the people of New England, and, incidentally, due largely to the way in which the matter was handled and a lot of very friendly feeling; a distinct traffic value was developed in New England and in Canada itself. There was no animosity or bad feeling of any kind in connection with the whole transaction, and it does afford an opportunity now to put that railway on a much more satisfactory basis insofar as our financial position is concerned, and to introduce certain economies which will, in the future improve the earning power of the Railways.

By Hon. Mr. Stevens:

Q. Under the receivership, would there be a public sale, public bidding?—
A. No. I think what would happen is this, that when the time comes for the receivership to be discharged, the Court will issue such an Order. What would be the procedure then, Mr. Ruel?

Mr. RUEL: We expect in that case that there will be a reorganization of the company, whereby we will take over the whole property and practically own the whole thing.

Sir HENRY THORNTON: The minority interest will disappear.

[Sir Henry Thornton.]

Hon. Mr. STEVENS: The only question is, whether or not, technically, you must not put it up for public bidding.

Sir HENRY THORNTON: I do not think we have to.

Mr. RUEL: It depends upon the Interstate Commerce Commission. If we can show a sufficiently good case for reorganization, and they approve, that is the end of it.

Hon. Mr. STEVENS: There is a possibility of them asking you to put it up for public sale? I do not want to raise questions that are embarrassing.

Sir HENRY THORNTON: At the same time, I want you to know exactly what the position is. The whole situation is that I believe the Vermont legislature are prepared to do anything with that property we ask them to do. Our relations are most cordial, and are most cordial with the Interstate Commerce Commission as far as the property is concerned.

Hon. Mr. DUNNING: Sir Henry gives us a general assurance that it is going well, and he does not feel like going into details which might be embarrassing in the development of negotiations.

Sir HENRY THORNTON: I would be glad to tell anyone anything he wants to know about it. But you can rest assured that the whole situation is in much more satisfactory shape to-day than it ever was, in so far as the Central Vermont is concerned.

By Mr. Duff:

Q. Where does the road begin and end?—A. It begins roughly at Rouse's Point and extends, partly by ownership and partly by leases of other lines, to New London, Connecticut, or St. John.

Q. By whom is the minority stock held?—A. A fair amount of it is held by ex-Governor Smith, the former president of the railway, who has been president for many years, and whose family really was responsible for the building of the railway originally. Then some of it is scattered around.

Q. Will those people be wiped out?—A. They will be.

Q. That is rather hard on the minority stockholder?—A. That we cannot help. If the Lord sends a flood and wipes out the property, I have not got any influence that would prevent it.

By Mr. McLean (Melfort):

Q. Their interest is really wiped out now?—A. Yes.

Q. By an act of Providence?—A. Yes.

By Hon. Mr. Dunning:

Q. It had very little value before that?—A. Very little value. The Canadian National Railways had been carrying the property, putting up any deficits in operating accounts, also in annual interest, for a good many years.

By Mr. McLean (Melfort):

Q. It is not a case of youth squeezing them out?—A. We are not squeezing them out. As a matter of fact the minority shareholders are perfectly willing. They have raised no question. They have gone with us into the receivership. It has been one of the most amicable arrangements I have ever had to deal with, having regard to the fact that it has had trouble mixed up with it. It will cost about \$5,000,000 to rehabilitate the road. Not all of that is rehabilitation, but in doing the rehabilitation there are certain other things that ought to be done, which we shall have to do. For instance, instead of renewing a light bridge in kind, a bridge which within a few years would have to be taken out anyway, that bridge has been renewed with a bridge of sufficient strength to take care of any probable increase in the weight of motive power. In the

[Sir Henry Thornton.]

renewal of rails, instead of putting back a light rail which was formerly on the railway, we will put back a heavier rail. We have not only rehabilitated the property, we have taken advantage of the opportunity to improve its operations.

Q. You have made a better one?—A. Yes. It would have been folly to have done otherwise.

By Mr. Duff:

Q. In view of the fact that the whole of the road is in the United States, have you considered the advisability of abandoning it altogether, instead of spending \$5,000,000?—A. No, I have not.

Q. Can you give us the reason why?—A. The Central Vermont Railway represents an important traffic link in the traffic of New England. There are three outlets for New England Traffic, or really three ways of handling traffic to and from New York; first, by way of the New York, New Haven and Hartford Railway, which now is physically connected with the Pennsylvania Railroad, across Long Island; secondly, across the Poughkeepsie Bridge; thirdly the northern route on the northern New England gateway, which is represented by our connection with the Central Vermont, and also a connection with the Canadian Pacific Railway has with other railways. For many years traffic moving via the northern gateway has been allowed a differential. That is because of the longer route and consequent slower time we were allowed to charge a somewhat lower freight rate than the other railways charged upon their shorter route. That was to compensate us for our disability. That was a concession which was made years and years ago, after a long struggle and it has remained in existence ever since.

By Hon. Mr. Dunning:

Q. That was made by the Interstate Commerce Commission?—A. It was made by the Interstate Commerce Commission. That northern gateway is very jealously protected by the New England shippers. They regard it as an important factor, an important competitive factor in the movement of traffic to and from New England to the west. Were we to abandon the Central Vermont, the probabilities are that that differential might be withdrawn. At any rate it certainly would affect the shippers in New England. Now, there is an additional reason, and to my mind a still more important one, namely, that all of the traffic that moves from points west of the Detroit River to New England passes through Canada. It increases the earning power of our men; it increases the net earnings of the Canadian National Railways. Therefore, we feel that the retention of the Central Vermont is a very essential factor. It also provides us with a new route from New England to Chicago and point west to Chicago.

Q. Entirely under our control?—A. Entirely under our control.

Q. It competes with nothing in Canada?—A. There is not a pound of freight that moves over the Central Vermont Railway which in any way unfavourably affects the position of any interest in Canada.

By Mr. Duff:

Q. In other words, is there any tonnage that comes from New London by ship and passes over the lines to Canada?—A. Yes, there is some tonnage that comes by boat from New York to New London and then from New London to Canada.

Q. Very much?—A. A fair amount. I cannot give you the figures off-hand. If it did not move that way, it would move by the Rutland or the Delaware and Hudson, or some of the other railways running to New York.

Mr. RUEL: The traffic of the Central Vermont is 80 per cent southbound, and very little of it northbound, only about 20 per cent. The 80 per cent comes from the western states, moves across Canada and down to New England

[Sir Henry Thornton.]

points. It is the value of that 80 per cent which is sustaining us in what we want.

Sir HENRY THORNTON: That contributes also, a proportion to the Canadian National Railways.

By Mr. Duff:

Q. It is valuable traffic to the Canadian National?—A. It is very considerable indeed, Mr. Duff.

By Mr. McLean (Melfort):

Q. Where does it come into Canada?—A. At Sarnia. The freight we get which originates west of the Detroit River and which comes almost entirely through Sarnia, that freight if it is destined to points in the United States, moves through Montreal or through Canada down to the New England States, and down that way. The bulk of it moves via Montreal and across Canada, the long route.

Mr. McLEAN (Melfort): Quite a volume of traffic is in that 80 per cent.

Mr. RUEL: The Central Vermont could not live without that traffic.

Sir HENRY THORNTON: If that traffic were withdrawn, the Central Vermont would quit. It would not be worth a rap.

By Mr. McLean (Melfort):

Q. What would be the nature of that traffic, Sir Henry?—A. Well a good deal of it is perishable freight, citrus fruits from the Pacific coast to New England, automobiles,—quite a considerable amount of automobile traffic, dressed beef, pork products of different sorts, and general merchandise.

It may interest this Committee to know that, if I recall the figures correctly, we handled about \$50,000,000 in gross earnings on this traffic. I mentioned this last year. We handled about \$50,000,000 of traffic which originated at one point in the United States and terminated at another point.

By Mr. Jelliff:

Q. On the second page we have the Funded Debt, showing an increase of \$55,000,000?—A. \$56,000,000 in round figures.

Q. Yes. The retirements seem to be some \$27,000,000?—A. That is right.

Q. The Finance Minister's statement shows an issue of \$65,000,000. Perhaps when you come before us again you can explain the use of all these funds, so as to give the Committee an understanding of your statement and of the Finance Minister's statement?—A. That \$65,000,000 was made up of \$31,000,000 Capital Expenditures, and \$27,000,000 in round figures was for Debt Redemption. What you would like to know is what the \$31,000,000 was spent on?

Q. Yes, not so much the increase in the funded debt?—A. It was authorized of course, last year, and we explained at that time the purposes for which this money was to be used, but I can state it again if you like.

Q. I would be glad if you would do so?—A. The financial statement shows \$27,000,000 for Refunding Debt. What Mr. Jelliff wants to know is, what we did with the \$31,000,000 which was a direct increase in Capital. Is that it? You want to know what was done with that money?

Q. Exactly?—A. Well, \$9,894,000 or \$9,895,000 was for the general Budget requirements of last year, including various additions to the property, increased right-of-way weight of rail, ballast, renewal of bridges and steel, and a lot of things of that kind. I have not the details of that with me, but I can get it. That is what that covered. \$1,000,000 was spent on the 1924-1927 program. \$877,000 of that was spent on the Saskatchewan branch lines. \$2,280,000 was spent on the branch line program of 1927-1930; a total sum of about \$2,800,000

[Sir Henry Thornton.]

was spent on the Toronto Terminals and Toronto Viaduct construction, and then there was an item of \$14,239,000 which was spent on refunding the temporary 1926-1927 Budget requirements.

Q. That makes it about \$30,000,000?—A. That makes it \$31,000,000.

Q. The balance of \$27,300,000 was debt redemption; that makes \$57,000,000?—A. You have to add a discount of about \$2,000,000, and replace cash on hand. We have cash on hand, \$4,727,000.

By Sir Eugene Fiset:

Q. Possibly we could find out how this money was distributed, how it was distributed through divisions?—A. Yes, that was all gone over last year, General Fiset, but we can reproduce it this year.

Q. I would like to know how the money has been distributed, expended, by divisions, if possible?—A. It had better be by districts.

Q. I thought it would be easier by divisions. I would like to know what proportion came to the Ottawa Division.—A. You would like to know how much of it was spent in the Province of Quebec?

Q. Yes, if you like to put it in that way?—A. We can do it by Provinces, if you want that.

Q. I will be satisfied with it by divisions.—A. Tell us what you want, and we will try to get it for you.

Q. I want to know how the money has been distributed, by divisions if possible?—A. I will try to get it for you.

By Mr. Cantley:

Q. If you are going to give it for Quebec, better give it for the whole of the Eastern Provinces.—A. The items were all gone over last year and approved, but we can furnish any information which the Committee would like to have. If you will tell the Chairman what you would like me to produce, I will get it.

By Hon. Mr. Stevens:

Q. The Railway has a system of dividing its business up into certain divisions or districts?—A. Yes.

Q. Operated in that way for economy and service?—A. Yes. You have to remember this too, that the amount of money you spend has not any particular relation to provinces, that is to say, you may spend x dollars this year in the Province of Quebec, and three years hence you may not spend any in Quebec at all, but spend y dollars in Alberta. You cannot spend in each province, exactly the same amount of money. A railway does not lend itself to that kind of treatment. You have to treat each part separately.

By Sir Eugene Fiset:

Q. In the Eastern Division we are often faced with a deficit. What expenditure you make in that Eastern Division results in a yearly deficit. I would like to know, what would the amount of \$9,000,000 include. Take fences, for instance; I would like to know how much is spent, not only in Quebec but on the whole system?—A. You will find that in the accounts. You are talking about capital alone, not expenses.

By Hon. Mr. Stevens:

Q. Your capital expenditure does not affect your deficit?—A. No.

Hon. Mr. DUNNING: Would we not get along better, if we took this page by page, and as these various pages come forward, we can ask for any further information we may desire. The General's point can be met in the statement now before us when we reach it. Perhaps we would get along better in that way.

[Sir Henry Thornton.]

Sir HENRY THORNTON: I would like to remark here that the amount spent on Capital Account is not necessarily to be regarded, in fact, not at all to be regarded as money wasted, because you may spend money on Capital Account which will make a very material reduction in your operating expenses. The only rule is that if you borrow your money at 5 per cent, the return you get from that expenditure to reduce your operating costs must exceed 5 per cent, otherwise there is no good borrowing it.

By Mr. Cantley:

Q. A short time ago you mentioned the amount spent on the 1927-1930 program. Will you be good enough to restate the amount; it has escaped me?—A. \$2,286,230.

Q. What proportion of that total amount will be expended?

Hon. Mr. DUNNING: \$12,000,000 is the total on branch lines.

Sir HENRY THORNTON: This particular branch line program is \$7,000,000.

Hon. Mr. DUNNING: There must be something else there.

Mr. HENRY: That includes the Toronto viaduct.

Sir HENRY THORNTON: That is about 30 per cent. \$2,286,000 is 30 per cent of the total.

By Mr. Bell (St Antoine):

Q. Before we start on these figures which refer to the Canadian National Railways System, from Page 18 on, we have schedules comprising the Canadian National system, and where they are marked with an asterisk it says, "The accounts of companies indicated (with an asterisk) are taken up in the system Income Account as "Separately Operated Properties." The point I am trying to get at is this, what does really comprise the Canadian National Railways? When we are discussing figures regarding the Canadian National Railways System, are all these companies included?—A. May I ask what you are referring to?

Q. From page 18 on of the main report.—A. You want to know when you discuss the Canadian National Railways, what physical properties are included in that?

Q. Yes. On page 1 of the report we have Operating Revenues, and you go on discussing what operating revenue is. Then you have on page 21 Accounts indicated by a certain mark, and you say that they are taken up in the system.

Sir HENRY THORNTON: Mr. Cooper can answer that question.

Mr. COOPER: The companies appearing as separately operated properties do not go into the System Operating Revenue and Expense Account. They go into Income Account all right. On page 4 you will find "Separately Operated Properties—Loss." They are taken up in the Income Account but not in the Operating Account.

Q. How is that?—A. There is really no relation, sir, between the N.S. & T. Electric Railway and the Canadian National Steam Railways.

Sir HENRY THORNTON: Take the Montreal and Southern Counties Railway. That is operated as a separate property, a separate corporate entity. You are familiar with that, and I am using it as an example. The gross earnings and expenses of that railway are not included in the operating account of the Canadian National Railways but the result whether a loss, or deficit, would be included in the Income Account.

Hon. Mr. DUNNING: Item 512, page 4, of the big accounts, shows it, Mr. Bell.

Hon. Mr. STEVENS: You gather into your Income Account the dividends or returns from these separate companies?

[Sir Henry Thornton.]

Sir HENRY THORNTON: Yes.

Q. Marked with an asterisk?—A. Yes.

Q. The others are included in your operating system?—A. That is correct.

By Mr. Bell (St. Antoine):

Q. One further question upon that point. There are other companies outside of these companies altogether that belong, or that I presume the Canadian National Railways are interested in. Take for instance, the Government Merchant Marine, the Hudson Bay Railway, or your branch to Rouyn; are they in these accounts?—A. The Canadian Government Merchant Marine is in a separate report and a set of accounts is kept for the Canadian Government Merchant Marine, which this Committee will deal with, as in past years, as a separate matter. The Hudson Bay Railway does not enter into the accounts of the Canadian National Railway. It is operated by the Canadian National Railways as the agent of the Government.

Q. How do you mean, as an agent of the Government?—A. We simply run the property, as you would employ an agent. If there is any profit, we give it to the Government, and if there is a loss, the Government stands it.

Major BELL: The amount is in the departmental estimates.

Mr. DUFF: The reason for that is that it is not finished.

Sir HENRY THORNTON: It is under construction.

By Mr. McLean (Melfort):

Q. The Canadian National Railways has no money invested in the Hudson Bay Railway at all?

Sir HENRY THORNTON: No.

Q. Before leaving this, I would like to ask what expense, if any, has been entailed by the separation of the Eastern Lines from the system as a whole, in the matter of keeping accounts?

Mr. COOPER: A considerable expense.

Sir HENRY THORNTON: Did we ever make any estimate of it?

Mr. COOPER: No, sir.

Sir HENRY THORNTON: Could you make an estimate of it, without taking up too much time?

Mr. COOPER: From \$10,000 to \$15,000 accounting expenses.

Sir HENRY THORNTON: For the year?

Mr. COOPER: For the six months.

Sir HENRY THORNTON: Mr. Cooper estimates that it would be somewhere in the neighbourhood of \$10,000 to \$15,000 additional expense for the last six months.

Mr. McLEAN (Melfort): Around \$30,000 a year would be the gross.

Sir HENRY THORNTON: That would be the figure he would put on it from his knowledge of the situation. Mr. Cooper points out that in starting a thing of this kind you would naturally have more trouble and expense than in subsequent years, after it gets going.

Mr. McLEAN (Melfort): But that would be the gross extra expenditure, so far as your staff is able to say at the moment.

Sir HENRY THORNTON: That goes at the rate of something like twenty or \$30,000 a year, but it is not expected that that will continue.

Mr. McLEAN (Melfort): It should decrease?

Sir HENRY THORNTON: Yes, it will decrease in quantity until it reaches a irreducible minimum.

[Sir Henry Thornton.]

The CHAIRMAN: Are there any further questions to ask before we proceed with the accounts?

Hon. Mr. STEVENS: I agree with the Minister that it would be very much preferable to have some order in our line of inquiry. -

The CHAIRMAN: We will find all these items in the report, and they can be taken up as we come to them.

Hon. Mr. STEVENS: Our report will read very much like a hodge podge if we do not have some order about it.

Mr. CANTLEY: When will we have the returns of the Merchant Marine?

Sir HENRY THORNTON: They are ready at any time. They will be here on Monday.

The CHAIRMAN: Will the printed statement be ready on Monday?

Sir HENRY THORNTON: No, I do not think so, but we will have enough data to go on with.

Hon. Mr. DUNNING: I have found it rather confusing to the members of the House to distinguish between this preliminary statement and the final statement, and if we have enough work to go on with on these accounts, I would prefer not to table anything connected with the Merchant Marine until I can table the final statement.

Sir HENRY THORNTON: It is all ready; it is just a matter of printing it. I can answer that question definitely to-morrow, but I think it will be ready on Monday.

Hon. Mr. DUNNING: When will the printed statement of the Canadian National accounts be ready?

Mr. COOPER: At the beginning of April.

Hon. Mr. DUNNING: Some curious member of the House is asking me every day when I will table the printed reports.

Mr. COOPER: I do not think there will be any difference between this report and the printed one.

Sir HENRY THORNTON: This report lacks only the auditors' certificate. We have never found that the auditors varied our figures. There may be a small variation of a dollar or two, but as a matter of fact we have never found that the auditors' examination varied the figures which our own auditors put forward, so you are perfectly safe in taking this (indicating the report) as far as the accuracy of the figures is concerned.

The CHAIRMAN: We will turn to the operating expenses and go through them item by item.

Sir HENRY THORNTON: I will ask Mr. Henry to read this. I am just getting over an attack of tonsilitis, and my throat is not in a talking condition.

Mr. HENRY: Do you want me to read it all through?

Sir HENRY THORNTON: I think perhaps that would be the best way. Mr. Henry will read this, and anyone who has any questions to ask may interrupt him at any point; ask any question and we will try to answer it.

Mr. HENRY: In presenting the accounts of the Canadian National Railways last year, those of the Central Vermont were included with the Canadian National. Owing to the disastrous floods which occurred in the fall of 1927, the Central Vermont was placed in Receivership on December 12, 1927, and consequently its accounts have been excluded from those of the Canadian National Railways system.

As contemplated by the Maritime Freight Rates Act 1927, the income accounts of the lines east of Levis and Diamond Junction have been withdrawn from Canadian National system accounts as from July 1, 1927, and are shown separately.

[Sir Henry Thornton.]

The accounts should be understood as excluding the Central Vermont for the year and the Eastern Lines from July 1. To afford a comparison, the 1926 accounts have been restated on the same basis. Canadian National figures will be given first and then the Eastern lines for six months from July 1 to December 31, 1927.

The operating expenses of the Canadian National Railways are classified in accordance with the accounting rules of the Dominion Bureau of Statistics, and are divided into 140 primary expense accounts, these being grouped under 7 main heads, with self-descriptive heads as follows:—

(1) Maintenance of Way and Structures.....	40	primary accounts
(2) Maintenance of Equipment.....	24	"
(3) Traffic.....	8	"
(4) Transportation.....	50	"
(5) Miscellaneous.....	5	"
(6) General.....	12	"
(7) Transportation for Investment Credit.....	1	"

Total 140 "

The comparison of expenses under these heads for the years 1926-1927 follows:—

Item	1926		1927		Decrease or Increase	
	\$	cts.	\$	cts.	\$	cts.
Maintenance of Way and Structures.....	43,028,428	62	46,075,178	06	Inc.	3,046,749 44
Maintenance of Equipment.....	47,321,602	60	47,447,253	16	Inc.	125,650 56
Traffic.....	6,440,087	63	7,124,864	67	Inc.	684,777 04
Transportation.....	100,603,158	02	105,166,760	58	Inc.	4,563,602 56
Miscellaneous.....	2,121,607	17	2,414,842	34	Inc.	293,235 17
General.....	6,970,244	08	7,226,199	60	Inc.	255,955 52
Transportation for Investment Credit.....	1,012,478	24	993,350	79	Dec.	19,127 45
Total.....	205,472,649	88	214,461,747	62	Inc.	8,989,097 74

The expenses may be further divided, for purposes of comparison, into Employees' Compensation and Other Expenses. This comparison follows:—

Employees' Compensation Wages Item	1926		1927		Decrease or Increase	
	\$		\$		\$	
Maintenance of Way and Structures.....	24,417,161		25,593,701		Inc.	1,176,540
Maintenance of Equipment.....	25,803,542		25,112,659		Dec.	690,883
Traffic.....	3,039,066		3,229,950		Inc.	290,884
Transportation.....	64,984,478		68,454,966		Inc.	3,470,488
Miscellaneous.....	1,065,740		1,193,973		Inc.	128,233
General.....	4,553,209		4,563,305		Inc.	10,096
Total.....	123,863,196		128,248,554		Inc.	4,385,357

Material and Miscellaneous Item	1926		1927		Decrease or Increase	
	\$		\$		\$	
Maintenance of Way and Structures.....	18,611,268		20,481,477		Inc.	1,870,209
Maintenance of Equipment.....	21,518,060		22,334,594		Inc.	816,534
Traffic.....	3,401,022		3,794,915		Inc.	393,893
Transportation.....	34,606,202		35,718,444		Inc.	1,112,242
Miscellaneous.....	1,055,867		1,220,869		Inc.	165,002
General.....	2,417,035		2,662,895		Inc.	245,860
Total.....	81,809,454		86,213,194			4,603,741

[Sir Henry Thornton.]

Superintendence is increased \$49,000 due to rates of pay while the balance of the increase is due to a change in accounting, transferring items of superintendence from other accounts to this account.

The increase in other track material follows the increase in rail.

Station and Office Building account increased \$34,000 due to increased rates of pay and \$75,000 for new train shed at St. John, N.B.

Increase in Shops and Engine Houses account is made up of heavy retirements in connection with Toronto Terminals \$167,000; expensive repairs to Battle Creek shop \$54,000 and increased rates of pay \$15,000.

The reduction in removing snow, ice and sand was due to less severe weather conditions.

There was an increase of 213,978 treated ties and a decrease of 278,609 untreated ties. Treated ties decreased in price 5 cents and untreated decreased 4 cents, resulting in a decrease of \$223,000. There was an increase in switch ties of \$74,000.

The effect of various main factors on the total expense is:

Changes in Price of Material and Miscellaneous:

Ties.....	Dec.	\$ 162,000
Rails.....	Inc.	493,000
Other Material and Miscellaneous.....	Dec.	373,000
	Dec.	\$ 42,000

Changes due to variation in quantity of material used:

Ties.....	Inc.	\$ 12,000
Rails.....	Inc.	275,000
Other Material and Miscellaneous.....	Inc.	1,625,000
	Inc.	1,912,000

Changes due to Employees Compensation:

Rates of Pay	Inc.	\$ 904,000
Hours worked.....	Dec.	22,000
Accountancy items redistributed.....	Inc.	294,000
	Inc.	\$1,176,000
	Inc.	\$3,047,000

The increase in quantity of labour and material, which might be expected to vary in any degree with traffic, amounts to \$1,890,000 and after allowance for decreased expense due to more favourable weather conditions and accidents, the comparative increase of expense is \$2,399,000 as compared with which the increased traffic amounting to 1.55 per cent would indicate an increase for labour and material amounting to \$301,000.

Sir HENRY THORNTON: Might we stop there and ask the committee if, under the general heading of "Expenses chargeable to Maintenance of Way and Structures", there is any criticism to be made, or any questions to be asked? In that connection I would like to say that, as has already been indicated, the increased expenses are due partly to increased wages and partly to a higher standard of maintenance, which we felt it wise to adopt last year. For example, there has been a good deal of complaint with respect to our gravel ballast between Montreal and Chicago, and we have pursued a somewhat faster program of renewing that in stone than would have been the case had there been no complaint. In other cases the necessity for higher speeds of our passenger trains has required a heavier rail, and certain of our wooden trestles are beginning to go and they have been renewed in steel, and while a proportion of that is chargeable to capital, it still carries with it a charge to expenses which we cannot escape; so that, broadly speaking, I should say to you that the increase of Maintenance of Way expense has been due to increased wages and the necessity, which we regarded as essential, of an improved standard of

[Sir Henry Thornton.]

maintenance of the railway. Now, if that explanation is not satisfactory, and anybody wishes to ask any questions, I think it would be wise to clear up the maintenance of way and structures before we go on with the other items.

Mr. CANTLEY: Roughly speaking, what mileage have you in regard to these wooden trestles on the western lines?

Sir HENRY THORNTON: In the western region?

Mr. CANTLEY: Yes.

Mr. HENRY: Offhand, I think it is about 90 miles. Probably Mr. Blaiklock can answer that.

Mr. BLAIKLOCK: Seventy-eight miles.

Mr. CANTLEY: What replacements or betterments did you make last year under that account?

Sir HENRY DRAYTON: Formerly we had a detailed statement put in. Why not do that this year?

Sir HENRY THORNTON: We have sometimes noted a question and brought the answer on the following day. It is not always possible to immediately turn to an account and get the information asked for. We will make a note of Colonel Cantley's question and bring in the answer to-morrow.

Mr. McLEAN (Melfort): In replacing wooden trestles with steel or concrete structures, what do you charge to Capital account?

Sir HENRY THORNTON: You charge the expense or cost of renewing the trestle in kind. You charge to Capital the difference between that and whatever you may put in.

Sir EUGENE Fiset: Does that general statement include the eastern division?

Sir HENRY THORNTON: No.

Sir EUGENE Fiset: I thought it did because it mentioned St. John, New Brunswick, a moment ago.

Sir HENRY THORNTON: That only related to the first six months. General. The division of accounts did not go into effect until the 1st of July.

Mr. CANTLEY: What proportion of the line from Moncton to Halifax is double tracked?

Mr. BLAIKLOCK: About 23 miles, as far as my recollection goes.

Mr. CANTLEY: What is your policy in connection with the double tracking of that line?

Sir HENRY THORNTON: I do not think that that has been subjected to any examination to determine the policy. What usually happens on a railway is that when the traffic reaches a point or gives indication of reaching a point where it cannot be handled economically or satisfactorily on a single track, you then consider how much double track you want to put in. Sometimes you postpone the double tracking by putting in automatic signals. It all depends on the volume of traffic.

Mr. CANTLEY: My point is this: at various times in the past you have carried out double tracking projects, and I presume the road has some definite program in regard to that.

Sir HENRY THORNTON: It has not been brought to my attention that there is any necessity for double tracking between Moncton and Halifax.

Mr. CANTLEY: But it does not go on in a haphazard way. There must be some definite program.

Sir HENRY THORNTON: The problem does not arise until the necessity appears, and I know of no necessity for double tracking the railway between Moncton and Halifax.

[Sir Henry Thornton.]

Mr. CANTLEY: There must have been some necessity or you would not have double tracked certain portions of it.

Sir HENRY THORNTON: Yes, that necessity arose and was met by double tracking, as far as double tracking was considered necessary.

Mr. CANTLEY: I think the question of getting the full benefit of the double track between those two large divisional points should be taken into account. Has the management any clear and definite understanding in their own mind as to what they will do, and the rate of progress at which they will carry it out?

Sir HENRY THORNTON: There is no necessity at the moment for continuing the double track between Moncton and Halifax.

Sir EUGENE FISET: Is there between Moncton and Levis?

Sir HENRY THORNTON: No. What happens is that you have a single track railway from A to B, and are handling a certain amount of traffic. When that traffic increases and gets to the point where you find you must add a certain number of miles of double track, you then consider the problem. Usually you commence by double tracking on some grade where the movement is slow, and that is sufficient for a certain number of years, and then the traffic catches up with that and you find necessity for extending the double track. How fast you extend it depends entirely on how fast your traffic moves. You cannot begin to-day and lay down a program for double tracking between Moncton and Halifax which will be consummated five or ten or twenty years hence.

Mr. DUFF: Unless you give the C.P.R. running rights into Halifax.

Sir HENRY THORNTON: That we do not intend to do.

Mr. DUFF: But if you have to, you will develop the situation as it arises.

Sir HENRY THORNTON: Should such a catastrophe overtake us, we will deal with it at the moment.

Hon. Mr. STEVENS: I want to ask one question in regard to charges due to employees' compensation. The full item is \$1,176,000, but included in that is an accountancy item redistributed of \$294,000. Will you explain that?

Mr. COOPER: The division superintendent's staff on the western region and the southern and northern Ontario districts were formerly charged under 371, Transportation Superintendence. In 1927 we divided that fifty-fifty between this account and 371.

Hon. Mr. STEVENS: That is not an increase in wages?

Sir HENRY THORNTON: No, just a redistribution.

Hon. Mr. STEVENS: Transposing a charge from one account to another.

Hon. Mr. DUNNING: It shows a decrease in the other account.

Sir HENRY THORNTON: May I take it, subject to getting an answer to Colonel Cantley's question, that the items chargeable to Maintenance of Way and Structures are passed.

Mr. CANTLEY: Just one question. In regard to the Victoria bridge; I see an item "widening the roadway, \$136,000." What is that?

Sir HENRY THORNTON: What happened was this: the Victoria bridge, as you know, carries a very large automobile traffic. The roadbed was worn out and had to be renewed. The roadbed is pretty narrow for two vehicles to pass, and we found that in renewing the roadbed—

Mr. CANTLEY: You are referring to highway traffic?

Sir HENRY THORNTON: Yes. We found we could add 18 inches. Now, 18 inches may not seem to you like very much, but it means a good deal to two passing vehicles; therefore we thought it wise to get that additional 18 inches even if it cost us some money.

[Sir Henry Thornton.]

Mr. CANTLEY: You are perfectly satisfied as to the safety of the bridge?

Sir HENRY THORNTON: Yes.

Mr. RUEL: The situation was that the bridge was dangerous for highway traffic.

Sir HENRY THORNTON: Not the structure itself, but the roadbed.

Mr. RUEL: It was too narrow. If a man were crossing the bridge and some reckless driver came along the other way and wanted to pass there was always a danger of a sideswipe; so we widened the highway.

Sir EUGENE Fiset: Can you give us any idea of the amount of relaying of track which has been done?

Mr. HENRY: In the year 1926-27.

Sir HENRY THORNTON: Somebody will make a note of it. -

By Mr. Jelliff:

Q. There is an increase in the quantity of rails. Have you anything here as to the new construction on the line?—A. Yes.

Hon. Mr. DUNNING: That is in the accounts.

By Mr. McLean (Melfort):

Q. Before leaving this item, the Victoria bridge, does the railway contribute the whole of the \$136,000?—A. That is part of the expense of maintaining the bridge.

Q. Part of the expense of maintaining the bridge for highway traffic?—A. Yes. The Victoria Bridge which crosses the St. Lawrence at Montreal carries the railway, the Montreal and Southern Counties tram cars, that company being owned by the Canadian National, and there is a highway bridge which carries vehicular traffic and on that we charge certain tolls.

Q. It is a toll bridge?—A. It is a toll bridge.

Sir EUGENE Fiset: On this item, do you say that it does not include the pay of the staff, that it is simply bridge charges.

Mr. HENRY: That is where it is chargeable, to Maintenance of Way.

Sir HENRY THORNTON: It is chargeable to Maintenance of Way.

Mr. POULIOT: Mr. Chairman, will you allow members of the House who are not members of this Committee to ask questions?

The CHAIRMAN: At another meeting, Mr. Pouliot.

Hon. Mr. DUNNING: If the question has relation to Maintenance of Way, there is no reason why Mr. Pouliot should not ask it now.

The CHAIRMAN: When we opened the meeting we decided to allow questions to be asked as long as too much time was not taken up. Are there any more questions on Maintenance of Way? If not, we will start with Maintenance of Equipment.

Mr. HENRY: On page 4 we have:

Maintenance of Equipment.

The comparative situation with respect to condition of equipment at the end of the year as compared with the previous year is:

[Sir Henry Thornton.]

	Serviceable 1927	Serviceable 1926
Freight cars.....	92.9	93.7
Locomotives.....	82.9	81.9
Maintenance of Equipment Expense, 1927.....		\$47,447,253
Maintenance of Equipment Expense, 1926.....		47,321,603
	Increase	\$ 125,650
Principal Increases—		
Steam Locomotives—Retirements.....		\$ 345,763
Steam Locomotives—Repairs.....		340,751
Freight Train Cars—Retirements.....		222,585
Depreciation (U.S. Lines).....		115,246
Principal Decreases—		
Freight Train Cars—Repairs.....		\$ 759,556
Work Equipment—Repairs.....		216,139
Passenger Train Cars—Retirements.....		118,555

The increase in steam locomotive repairs is made up partly of increase due to changes in rates of pay and the balance is due to more maintenance work performed.

There was an increase of six locomotives retired as compared with the previous year.

There was a decrease of 388 in freight train cars retired and not replaced, but as the book value was greater there was an increased expense.

Equipment depreciation account on the U.S. lines increased in the year due to two new car ferries \$54,000; additional locomotives and cars \$57,000.

The reduction in freight train car repairs has been made notwithstanding the effect of increased rates of pay. The decrease is due partly to the larger use of reclaimed material, partly to increased efficiency and partly to less work done.

Increased rates of pay caused an increase on account of work equipment repairs. Charges to investment account for repairs effected, operated to produce the decrease in total amount of the account.

Passenger train car retirements were decreased by seven units less than previous year, retired and not replaced.

The effect of various main factors on the total expense is:

Changes in price of materials.....	Dec.	\$ 759,000
Changes in quantity of materials and miscellaneous.....	Inc.	1,575,000
Changes in Employees Compensation—		
Due to rates of pay.....	Inc.	\$ 362,000
Due to hours worked.....	Dec.	1,033,000
Accountancy items due to readjustment.....	Dec.	20,000
		Dec. 691,000
Total.....	Inc.	\$ 126,000

There is a decrease in quantity of labour and material amounting to \$542,000 and after allowing for accidents the decrease is \$565,000, whereas an increase of \$591,000 might have been expected in view of the relative traffic.

Sir HENRY THORNTON: Are there any questions any one would like to ask regarding Maintenance of Equipment Expenses?

By Mr. Milne:

Q. There is an increase in depreciation, not on our own lines?—A. We do not charge depreciation on Canadian lines. We retire, and charge the retirement into expenses direct.

By Sir Eugene Fiset:

Q. May I ask if you have in your program for 1924-1925 a certain number of cars especially for the Eastern Division; 300 of those cars were to be pre-

[Sir Henry Thornton.]

pared for service during those years, and you were to give us the proportion that had been provided for a former year. Is it possible to get that statement?—A. We will get that statement for you by to-morrow, if necessary.

By Mr. Milne:

Q. Have you taken into consideration at all the protection of stock shipped in these slatted stock cars in cold weather?—A. That question has come up, but I am not in a position to say much about it. There has been a good deal of discussion with regard to the treatment of stock in transmission on railways particularly. The practice we have followed is that generally followed by railways on the North-American Continent. There has been discussion and some criticism of late, especially in the public press, and we are having an examination made of the whole position. I cannot answer your question off-hand, except to say that it is being given immediate attention.

By Sir Eugene Fiset:

Q. While you are preparing this statement, is it possible to know what distribution has been made of these cars in the provinces of New Brunswick, and Nova Scotia and also in the Province of Quebec?—A. Yes, sir, we can get that.

By Mr. L. Bell (St. Antoine):

Q. Under Maintenance of Equipment are locomotives being purchased in Canada?—A. All of our locomotives required for use in Canada, are purchased in Canada. All locomotives which are used in Canada, or intended to be used in Canada, are purchased in Canada.

Q. Does that apply to other equipment also?—A. It applies to everything the company buys, that is, assuming that it can be found here. There may be some small items—I do not remember what they might be—there might be something required that we cannot get in Canada. But you may take it that everything which the company uses in Canada is bought in Canada.

By Mr. Milne:

Q. How do prices for locomotives purchased in Canada compare with the United States?—A. They are higher.

Q. Approximately how much?—A. I should say that if we bought a locomotive in the United States for use in Canada, and paid the duty on it to bring it into Canada, it would probably be somewhat more costly than if we bought it in Canada; but if you leave the duty out of consideration, I should say that locomotives can be bought more cheaply in the United States than in Canada.

By Mr. McLean (Melfort):

Q. But for use on the American lines, leaving them in the country of origin, what would be the approximate difference between locomotives of the same type in the two countries, leaving aside the questions of duty and importation altogether?—A. We can get exact figures for that. I would not like to answer it off-hand.

Q. I would like to know the difference in the cost of railroading in the two countries.—A. You want to know the cost of locomotives, generally speaking, in Canada, as compared with the United States? We can get that.

Mr. MILNE: Better get the same information in regard to box cars.

By Mr. McLean (Melfort):

Q. You might as well give it to us on box cars and regular train equipment.—A. I will get it on motive power and rolling stock.

[Sir Henry Thornton.]

By Mr. Jenkins:

Q. May I ask a question about the Pullman Company. Have they any jurisdiction over your lines?—A. We operate Pullman cars on through routes, running into the United States, for instance, between Canadian points and Chicago, and between Canadian points and New York and Boston.

Q. I presume the Pullman Company get a royalty on that business?—A. No, they furnish the cars. I can give you the details of the contract, if you would like to have them.

Q. They furnish the cars?—A. Yes, and maintain them and operate them, but we haul them.

By Hon. Mr. Stevens:

Q. They get a royalty?—A. The public buy the tickets, and the company gets the gross revenue.

By Mr. Jenkins:

Q. It would be more profitable to operate them yourself?—A. I am not sure about that. We operate our own sleeping cars between the principal points in Canada. The C.P.R. also have done that. It has been the general practice on both railways. I should want to retain that privilege. I mean if I were asked to sell to the Pullman Company, or let them take over our services, I should feel that we ought to refuse.

By Mr. Milne:

Q. The Pullman Company is not a subsidiary Company?—A. It is an independent company, operating sleeping and dining cars generally, on the North American continent, but chiefly in United States.

By Mr. McLean (Melfort):

Q. They operate on your lines only where they cross the border?—A. Where they cross the border. That too, is a heritage which came to us. As a matter of fact the Pullman Company developed in a perfectly legitimate way and filled a legitimate want in the early days of railroading. The Pullman Company in the first place, had the patents on sleeping cars, and in the second place they had the capital to provide sleeping cars, which most of the railways some decades ago in the United States did not have, and in the third place their sleeping cars could travel freely over different railways. For instance, they could run sleeping cars from Chicago to San Francisco, which might pass over three or four different railways, while if one railway owned its own sleeping cars, unless they came to some understanding on exchange of equipment there would have to be an exchange of passengers at the boundaries of each railway. So that an understanding was brought into existence with the Pullman Company and that has existed.

By Mr. Jenkins:

Q. They have given a satisfactory service?—

Hon. Mr. DUNNING: Not any better than our own.

By Mr. McLean (Melfort):

Q. There is no competition?—A. There is no competition.

Q. To say the least of it, it is no better than your own?—A. I would say that our own is the best.

Mr. CANTLEY: From the beginning of the Intercolonial there was an understanding with the Pullman Company which lasted for about twenty years. Some years ago the Intercolonial took over the cars of the Pullman Company and operated their own.

[Sir Henry Thornton.]

By Mr. Bell (St. Antoine):

Q. One question with regard to Maintenance of Way. Ties and coal; what is the policy of the company? Is it to buy by tender?—A. Practically everything the company buys is bought on tender.

By Mr. Duff:

Q. Open competition?—A. Open competition. When you come to the purchase of ties, you cannot always pursue entirely the policy of open tenders, but we fix a certain price for ties, which we think is fair, and which is generally as satisfactory as anything can be. Then we try to apportion the ties in accordance with the ability of the producers to produce.

By Mr. Cantley:

Q. You beat the poor contractor down to the lowest?—A. Our business is, not to waste money, Colonel Cantley.

By Mr. Bell (St. Antoine):

Q. What about loss by accidents?—A. Well, after all, the Lord is a very valuable ally. You may at any time have one accident which might cost a million dollars. It is queer the way the thing goes.

By Mr. Cantley:

Q. Any decrease is largely due to the improvement of the roadbed?—A. As a railway improves its roadbed and becomes more efficient, automatically its accidents are likely to decrease.

Mr. CANTLEY: I think you can very well take credit for it.

Hon. Mr. DUNNING: Not altogether.

Sir HENRY THORNTON: Wait a minute Colonel. You have been giving us too much credit. The increase in accidents was only 23. It is the difference between 542 and 565. However, I am using every effort.

The CHAIRMAN: Are there any further questions, about maintenance of equipment? If not, we will pass on.

By Mr. McLean (Melfort):

Q. We were talking about ties a moment ago; how many do you use throughout the Dominion?

Sir HENRY THORNTON: How many do we use on the railway as a whole?

Q. Yes?—A. I will tell you in two minutes. 7,697,000 last year.

Q. You did not find any difficulty in tie purchasing last year because the price was reduced?—A. No, we did not find any trouble. There may be a local trouble here and there, but generally speaking, there is no trouble.

By Mr. Milne:

Q. Do you find it economical to treat your ties with creosote?—A. Yes, we are advancing as rapidly as we can in the employment of treated ties for two reasons; first, because it is economical, second because it tends to conserve the timber supply of the Dominion.

By Sir Eugene Fiset:

Q. To what extent did you use hardwood ties last year?—A. I will have to get that. Do you want to know how many hardwood ties we used?

Q. It does not matter.—A. I think maybe we can get that for you.

Q. You did give us the information last year?—A. Last year we used 2,197,000 treated ties, and 5,500,000 untreated ties.

Q. Were those hardwood?—A. No, they would not be hardwood. I have the answer to your question.

[Sir Henry Thornton.]

Mr. HENRY: Hardwood ties purchased last year amounted to 1,459,000.

Sir EUGENE Fiset: Out of 7,000,000?

Mr. HENRY: Out of 7,000,000.

Hon. Mr. DUNNING: None of the treated ties are hardwood?

Sir HENRY THORNTON: Yes.

Sir EUGENE Fiset: May I ask if you have used both birch and maple.

Mr. HENRY: We have used both birch and maple.

Sir EUGENE Fiset: There is a demand for the information.

Mr. HENRY: We used last year, soft wood ties—those are purchased ties—you can take it as approximately 5,000,000 jack pine, 428,000 British Columbia fir, 973,000 hemlock, 600,000 cedar, 400,000 tamarack, 16,000 spruce, 831 poplar, 7,182 pondasa pine, making a total of soft wood ties of 7,480,000.

Of hardwood ties we used: chestnut 20,500, white oak 117,000, treated red oak 112,500, treated hardwood 112,500, red oak 111,000, beech 219,400, birch 515,300, maple 251,000, making a total of 1,459,000, or a grand total of 8,939,000.

Mr. POWER: What proportion did you buy from dealers, and what proportion from settlers?

Sir HENRY THORNTON: We can get that if you would like to have it.

Hon. Mr. DUNNING: There are those who produce the ties as settlers and those who produce the ties as dealers.

Mr. HENRY: Settlers direct is what you have in mind.

By Mr. Jelliff:

Q. What is the difference in the life of a tie, as between a hardwood and a softwood tie?

Sir HENRY THORNTON: The life of a tie depends partly on the ravages of nature and partly upon the traffic. In a very general way, you can say that a hardwood tie will last ten years under an average amount of traffic.

By Sir Eugene Fiset:

Q. And a treated tie?—A. A treated tie is good for something like eighteen years, maybe more. Sometimes you get such heavy traffic conditions that the tie wears out mechanically before it rots out.

By Mr. Jelliff:

Q. What is the difference in the price?—A. The average cost, Mr. Jelliff, of treated ties last year was \$1.46, and the average cost of an untreated tie was 72 cents.

By Mr. Milne:

Q. Do the ties last longer when treated?—A. Yes.

Q. How much longer?—A. I should say it would add a couple of years, because there is less moisture around the base of the tie, and less inducement to rot.

By Sir Eugene Fiset:

Q. When preparing the statement for Colonel Power is it possible to obtain the approximate number bought from settlers through your local station agents?—A. I do not know whether we can get that or not. We can try, and see what we can do.

By Mr. McLean (Melfort):

Q. Is that method followed?—A. Which method?

[Sir Henry Thornton.]

Q. Of buying through your local agents?—A. I do not think it is. Some one spoke of that, but I thought he was wrong although I did not happen to know positively. I doubt whether we are buying any ties through local station agents.

Q. Last year you gave every possible encouragement to the settlers to deal directly with you?—A. We tried to.

Q. Can you tell us what machinery you utilized to bring that about?—A. We will have to get that for you by to-morrow.

By Mr. Duff:

Q. Is there a man named Grant who comes from Nova Scotia to buy ties?
—A. Mr. MacLaren is our agent.

The Committee adjourned at 1 p.m. to meet at the call of the Chair.

SESSION 1928
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2—APRIL 17, 1928

WITNESS:

Sir Henry Thornton

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

REPORTS OF THE COMMITTEE

THIRD REPORT

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Third Report:—

Your Committee, to which was referred Bill No. 204, An Act respecting The Toronto Terminals Railway Company, have taken the said Bill under consideration and have agreed to report the same without amendment.

All of which is respectfully submitted.

W. T. GOODISON,
Chairman.

MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met at 11 o'clock, a.m., the Chairman, Mr. Goodison, presiding.

The following members of the Committee were present:—

Messieurs: Cantley, Chaplin (Hon. J. D.), Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Jelliff, Jenkins, McLean (Melfort), Milne and Stevens (Hon. H. H.)—11.

Sir Henry Thornton, President, and a number of the official staff of the Canadian National Railways were in attendance; also several representatives of the Department of Railways and Canals.

The Chairman announced that the first matter to be taken up would be Bill No. 204, An Act respecting The Toronto Terminals Railway Company, which had been referred to the Committee for consideration.

The said Bill was considered, adopted without amendment and ordered to be reported.

A statement comprising questions that had been asked at the previous meeting, held on March 22, with detailed answers to the various questions was then submitted by the Chairman, discussed again by the Committee and ordered to be incorporated in the evidence.

The Analysis of Accounts of the Canadian National Railways, which was under consideration at the previous meeting of the Committee, was again taken up at page 5, where interrupted at the adjournment of the Committee.

Sir Henry Thornton as witness, the Committee considered the following subjects and items, in successive order:—

Maintenance of Equipment, Traffic, Transportation, Miscellaneous, General, Transportation for Investment Cr.

Eastern Lines, increases and decreases for years 1926-27, on which there was general discussion.

The Annual Report of the Canadian National Railways System was then placed before the Committee, and under the heading of Railway Operating Revenues and Expenses, the following items were discussed in detail, viz: Items 101 to 152, pages 16 and 30. Reference was again made to *Eastern Lines statement*, page 3, under the heading of Railway Operating Revenues and Expenses, Items 101 to 143 were discussed, in order to conclude the items under this heading.

It being about one o'clock the question of the next meeting arose. After discussion, Mr. Dunning moved, that the Committee meet again to-morrow, Wednesday, at 11 o'clock, a.m., and then decide as to further meetings.

Carried.

The Committee adjourned.

MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: Gentlemen, the first thing we will take up this morning is Bill 204, "An Act respecting the Toronto Terminal Railway Company." Copies of this Bill will be distributed to you shortly, but I will read this to you now.

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Subsection three of section 15A of chapter one hundred and seventy of the statutes of 1906, as enacted by section one of chapter twenty-eight of the statutes of 1925, is hereby repealed and the following substituted therefor:—

(3) The Canadian National Railway Company may issue, in addition to the security issue authorized by subsection two of this section, bonds, debentures or other securities to an amount not exceeding ten million five hundred thousand dollars to be used,—

(a) In the purchase at par of securities issued by the Company not exceeding, together with the securities purchased under the provisions of subsection two of this section, one-half of the total securities to be issued by the Company for the purpose of its undertaking;

(b) In defraying the cost of portions of the said Viaduct and Works, which will not be included in the works to be owned by the Company and will have to be constructed for or by the Canadian National Railway Company itself, and in defraying the cost of other railway facilities necessitated by or incidental to the construction of the said viaduct and works.

Hon. Mr. DUNNING: Mr. Chairman, it will be remembered that in the House of Commons I moved that this Bill be referred to this committee in order that the officers of the company might be available to give such information as the committee might desire with respect to the Toronto terminal project, and with respect to the increase in authority contemplated by the Bill. That was acceded to on the ground that inasmuch as the evidence of this Committee is recorded, information which is here obtained from the officers will be available to the membership of the House of Commons generally. Really, the whole Toronto terminal matter is before this Committee for examination of the officers in any way they may see fit, and probably, to start the ball rolling, the first question might properly be "Why the increase from \$7,500,000 to \$10,500,000?"

Sir HENRY THORNTON: The amount of money asked for is for certain works which are ancillary to the construction of the Toronto terminal, and which have grown out of the Toronto viaduct proposition. For example, it was necessary to construct for the exclusive use of the Canadian National Railways an engine house, and a number of other things of that character have been necessary and have been occasioned by the Toronto viaduct and the new Toronto terminal.

Mr. JELLIFF: What was the cost of the new engine house?

Mr. BROWN: The engine house and coach facilities, about \$2,000,000.

[Sir Henry Thornton.]

Sir HENRY THORNTON: In addition to the engine house there was an additional express house and express facilities; there were offices for the Canadian National Railways, which represented \$300,000. The first item, "express facilities," amounted to \$346,000. There was also a power house, which was not originally included, which represented \$665,000. That totals \$1,306,000. In the adjustment of our relations with the city, the city was unable to bear as large a proportion of some of the expenses as we expected, and that had to be cared for. There was also a difference of about \$1,000,000 in regard to land. We expected to get about \$3,000,000 for certain lands we were going to sell, but we only got \$2,000,000. Briefly, this represents necessitous work which had to be done as growing out of the construction of the Toronto terminal.

Mr. JELLIFF: Work not contemplated in your original arrangement?

Sir HENRY THORNTON: Partly not contemplated, and partly under-estimated.

Hon. Mr. STEVENS: Does this \$10,500,000 represent the total investment of the National Railways in the Toronto viaduct?

Sir HENRY THORNTON: No, the total cost of the Toronto viaduct—

Mr. BROWN: It will be about \$17,500,000.

Hon. Mr. STEVENS: The National Railways' participation will be about \$17,500,000?

Sir HENRY THORNTON: Eventually, yes.

Hon. Mr. STEVENS: Including the station?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: All the terminals?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: And the viaduct?

Sir HENRY THORNTON: Yes.

Mr. MILNE: Has the C.P.R. a like amount invested as compared with the C.N.R.?

Sir HENRY THORNTON: I should think approximately, yes.

The CHAIRMAN: The proportion between the two you would say is about half and half?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Is the seventeen millions in addition to the ten and a half?

Sir HENRY THORNTON: No, the seventeen million is the total.

The CHAIRMAN: The ten and a half million dollars is included in the seventeen?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (Melfort): Did the city agree to pay a larger proportion than they are now paying?

Sir HENRY THORNTON: I do not think they did.

Mr. McLEAN: You just expected they would pay more.

Sir HENRY THORNTON: Yes. Of course, when a project of this sort first starts, you have to make certain assumptions. Some of these assumptions involve the cost of the additional land that will be required; some of them involve the credit that you may get for land that can be diverted to other purposes, and not needed for the viaduct; and another supposition that you have to make is what the division of the cost will be between the railways on

[Sir Henry Thornton.]

the one hand and the city on the other. Those have to be estimated originally to the best of your ability. They are difficult to estimate, and sometimes they do not turn out as you expect them to.

Mr. McLEAN (Melfort): You had no agreement with the city that they would carry a certain aggregate amount or a certain percentage of the cost?

Sir HENRY THORNTON: We had a general agreement with the city.

Hon. Mr. DUNNING: You got the authority here to negotiate the agreement.

Sir HENRY THORNTON: Yes, that is right.

Hon. Mr. DUNNING: And the agreement was negotiated upon certain assumptions?

Sir HENRY THORNTON: Yes.

Mr. McLEAN: If the agreement was negotiated as Sir Henry states, on the assumption that they would pay so much, was there an aggregate or a percentage of the amount agreed upon? That is what I should like to understand. Was there such an agreement?

Sir HENRY THORNTON: There was an agreement with the city as to about how much they were to contribute, and then as we proceeded with the work, a whole lot of unforeseen things developed in connection with it, and with our negotiations with the city.

Mr. McLEAN: Are they paying what they agreed to pay?

Sir HENRY THORNTON: Yes, the arrangement with the city is perfectly amicable, and there is no contention.

Sir EUGENE Fiset: Does the same agreement exist between the C.P.R., and the city also?

Sir HENRY THORNTON: I suppose they have an agreement with respect to matters which relate to themselves, and of course, they participate with us in our joint understanding with the city.

Sir EUGENE Fiset: That is a tri-partite agreement?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Where is the other seven millions provided for, Sir Henry?

Sir HENRY THORNTON: The additional? That, we will bring up next year.

Hon. Mr. STEVENS: It is not yet asked for?

Sir HENRY THORNTON: No, we are merely asking for what is necessary to carry us through this year. And, we will be able to see a little more clearly next year what we want to do, but this merely carries the work until the next session of parliament.

Mr. CANTLEY: This is not final then?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: The total cost is now estimated at seventeen millions, and I was asking where the balance was to come from?

Sir HENRY THORNTON: That will have to come next year.

Hon. Mr. STEVENS: You are trusting to the good nature of Parliament?

Sir HENRY THORNTON: We feel that we can always rely upon the fraternal influence of a Parliament with respect to the Canadian National.

Hon. Mr. STEVENS: It is a good thing to lean on all right.

[Sir Henry Thornton.]

Sir HENRY THORNTON: I may say this, Mr. Stevens: If we come to Parliament and have a clear case, and can prove our case, we feel that we will get fair treatment. If we cannot prove our case, we do not deserve it.

Hon. Mr. STEVENS: I asked the question because I thought it had already been voted or was coming from some other source, but the real answer I take it is, that you will come back next year, or at some future time, for the balance of the vote, whatever it may be.

Sir HENRY THORNTON: Precisely.

Hon. Mr. DUNNING: But, the seventeen million dollars includes not only the costs of the Toronto Terminal Company, but all the costs of the C.N.R., of works necessary to fit in outside the area covered by the terminal, to fit in with the terminal scheme.

Sir HENRY THORNTON: That is so.

Hon. Mr. DUNNING: And that might be provided for by this legislation, or the regular budget?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: In so far as it is covered by the area outside the terminal scheme.

Mr. CANTLEY: I presume you are including the replacement of buildings or sheds you had somewhere else?

Sir HENRY THORNTON: Well, we had an engine shed; it would be perhaps stretching a point to call it an engine shed, it had got into pretty bad shape, and it had to be rebuilt.

Mr. CANTLEY: The shed would belong to the former Grand Trunk?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: That seventeen and a half million also includes the original shed and station cost which was invested before this agreement?

Sir HENRY THORNTON: Yes, that represents our total costs, partly from the joint terminal arrangement, and partly for certain constructions which were forced by the new terminal.

Hon. Mr. DUNNING: I thought Mr. Stevens was under the impression that you contemplated coming back for seven and a half millions more?

Sir HENRY THORNTON: No, I did not get that.

Mr. McLEAN (Melfort): I suppose most of this money asked for now has been already expended under the previous legislation.

Sir HENRY THORNTON: I would ask Mr. Brown whether we have spent it all or not?

Mr. BROWN: No, there is still a balance unexpended.

Mr. McLEAN: Of the seven and a half million?

Sir HENRY THORNTON: Yes.

Mr. McLEAN: But the great bulk is spent, of course?

Sir HENRY THORNTON: As a matter of fact, to make a short-cut to it, something is due to the Toronto terminal itself; it is partly expenditures which necessarily were forced by the construction of the terminals. For instance, we had to have a new engine house. Well, we have to have a new engine house, we could not get away from that; there must be some place to put the engines.

Mr. DUFF: I move that Clause 1 carry.

Mr. JELLIFF: I would like to ask Sir Henry if he can tell us approximately when the work will be completed?

[Sir Henry Thornton.]

Sir HENRY THORNTON: Mr. Brown can perhaps answer that better than anyone else.

Mr. BROWN: In about two years more.

The CHAIRMAN: Is Clause 1 carried?

Carried.

The CHAIRMAN: Shall we report the Bill?

Some Hon. MEMBERS: Yes.

Sir HENRY THORNTON: Mr. Chairman, there were certain questions which were asked at the last meeting of the Committee, and we have these answers here. Will you give those answers, Mr. Henry, please? You have prepared them.

Mr. HENRY: Colonel Cantley asked:

What portion of the line from Moncton to Halifax is double tracked?

The answer is:

	Miles
Halifax to Windsor Junction..	15.93
Truro to Belmont	7.69
Springhill Junction to Maccan..	8.85
Painsec Junction to Moncton order board..	7.08
Total mileage double track..	39.55

Sir Eugene Fiset asked:

What is the program for equipping cars for potato service and providing them with heaters? How many of these cars have been conditioned and equipped with heaters? What is the distribution of these cars in Nova Scotia, New Brunswick and Quebec?

Answer:

Eastman Heaters.—188 cars. A charge, in addition to the freight rate, is made for the use of these cars and $1\frac{1}{2}$ cents per mile for heating. These cars have heaters permanently installed.

Lined Potato Cars.—196 cars. A charge, in addition to the freight rate, is made for the use of these cars, and they are heated entirely by shippers.

Refrigerators.—50 cars, specially lined on orders of the Board of Railway Commissioners, for use from points in the Maritime Provinces to Atlantic Ports. A charge, in addition to the freight rate, is made for the use of these cars, plus a special charge for their use, as authorized by the Board. If heating is requested, a charge of $1\frac{1}{2}$ cents per mile is made in addition. Heating is accomplished by the use of portable heaters.

Refrigerators.—2,880 cars, for which a charge, in addition to the freight rate, is made, also a charge of $1\frac{1}{2}$ cents per mile for heating if same is requested by shippers. This is also accomplished by portable heaters.

With the exception of the 50 specially lined refrigerator cars, all cars are distributed over the whole potato loading territory.

Sir EUGENE FISET: May I have a copy of that?

Sir HENRY THORNTON: It will be published in the minutes.

Sir EUGENE FISET: I would like a special copy.

Sir HENRY THORNTON: See that General Fiset gets a copy for his own use.

[Sir Henry Thornton.]

Mr. HENRY: Colonel Cantley asked:

What is the mileage of wooden trestles on the Western Region, and what replacements or betterments were made last year?

We have given a statement here of the whole system. This is rather a long statement. Do you want it by regions, or simply the system situations?

Mr. CANTLEY: If you have it there, I will get it later; if you will put it in the minutes.

Sir HENRY THORNTON: Then we will hand it in to be published in the minutes.

Answer:

Timber Bridges filled, replaced with steel or concrete; Bridges renewed in kind and built new during 1927:—

(Please note the answer is for all Regions)

Region	Eliminated				Replaced in Timber				New Timber Bridges Built				Timber Bridges in Existence December 31, 1927	
	By Filling		By Steel or Concrete Bridges		No.	Lin. Ft.		No.	Lin. Ft.	By Oper. Dept.		No.	Lin. Ft.	Miles
	No.	Lin. Ft.	No.	Lin. Ft.						No.	Lin. Ft.			
Western.....	60	13,652	2	274	75	8,208	12	12	910	8	1,015	2,390	317,904	60.2
Central.....	16	1,186	6	1,726	10	972	4	4	580	32	10,214	496	57,533	10.9
Grand Trunk Western.....	11	404	.....	.....	9	856	1	1	80	.....	.....	188	19,205	3.6
Atlantic.....	6	2,104	.....	164	10	926	3	3	(B) 206	.....	.....	115	20,479	3.9
Total.....	93	17,346	8	2,164	104	10,962	20	20	1,776	40	11,229	3,189	415,121	78.6

NOTE A.—The bridges in this column are those located on lines built by Construction Dept. and taken over by Operation Dept. during 1927.

NOTE B.—Three bridges built 1921-1924 but included in statement for 1927 for first time.

(Sir Henry Thornton.)

Mr. HENRY: Mr. McLean (Melfort) asked:

What is the cost of locomotives and cars, passenger and freight, of the same type, in the United States, compared with the cost in Canada, leaving aside the question of duty?

Here is a statement which perhaps might go in to the minutes.

Sir HENRY THORNTON: Does Mr. McLean want that read?

Mr. McLEAN: As long as it goes into the record, it will be all right.

Answer:

COMPARISON of cost of locomotives and cars, passenger and freight, of the same Type purchased in the United States, as compared with similar equipment purchased in Canada, exclusive of Canadian import duty and sales tax.

Locomotives:

1924:	21	Type 4-8-2 Passenger, Canada, \$75,000 each, C.L. Co.
1925:	5	Type 4-8-2 Passenger, U.S.A., \$56,850 each, B.L. Co.
1927:	40	Type 4-8-4 Passenger, Canada, \$94,250 each, C.L. Co. & M.L. Co.
1927:	12	Type 4-8-4 Passenger, U.S.A., \$83,500 each, A.L. Co.

Increase in cost, 1924 to 1927, due to increased capacity of locomotive and improvements in design.

Freight Cars:

1927:	750	40-Ton steel frame box auto cars, Canada, \$2,800 each, N.S.C. & E.C.C.
1927:	1,000	40-Ton steel frame box auto cars, U.S.A., \$2,180 each, P.S. Co.

Passenger Cars:

1919:	80	Steel colonist cars, Canada, \$32,500 each, C.C. & F. Co.
1919:	50	Steel colonist cars, U.S.A., \$24,000 each, P.S. Co.
1928:	50	Steel colonist cars, Canada, \$35,000 each, C.C. & F. and N.S.C.
1928:	50	Steel colonist cars, U.S.A., \$26,000 each, P.S. Co.

Work Cars:

1927:	100	Convertible ballast cars, U.S.A., \$2,600 each, P.S. Co.
1928:	300	Convertible ballast cars, Canada, \$3,150 each, C.C. & F. and N.S.C.

Increase in prices 1919 to 1928 principally due to increased price of lumber and improvements in brake equipment and interior equipment, and fittings.

Mr. HENRY: Major Power asked what proportion of the ties were bought from dealers and what proportion from settlers, during 1927.

Hon. Mr. STEVENS: What are the totals of that, just roughly?

Mr. HENRY: The totals were: Manufactured ties 8,835,457; from settlers: 104,811.

Hon. Mr. STEVENS: The statement goes in, I understand?

Sir HENRY THORNTON: If it will be all right, that may go in.

Answer:

<i>Atlantic Region—</i>	Manufacturers ties	Settlers ties	Total
Prince Edward Island.. . . .	4,488	.....	4,488
Nova Scotia.. . . .	433,350	3,658	437,008
New Brunswick.. . . .	604,133	5,874	610,007
Quebec.. . . .	10,668	176	10,844
Total.. . . .	1,052,639	9,708	1,062,347
<i>Central Region—</i>			
Quebec.. . . .	506,185	3,067	509,252
Ontario.. . . .	1,776,911	7,228	1,784,139
West Virginia.. . . .	20,226	.....	20,226
Total.. . . .	2,303,322	10,295	2,313,617
<i>Western Region—</i>			
Ontario.. . . .	999,753	117	999,870
Manitoba.. . . .	38,095	717	38,812
Minnesota.. . . .	125,450	.....	125,450
Saskatchewan.. . . .	349,217	768	349,985
Alberta.. . . .	1,255,878	12,188	1,268,066
British Columbia.. . . .	1,966,103	71,018	2,037,121
Total.. . . .	4,734,496	84,808	4,819,304
G. T. Western.. . . .	745,000	.....	745,000
Grand total.. . . .	8,835,457	104,811	8,940,268

Mr. HENRY: Sir Eugene Fiset asked:

How many ties were purchased from settlers in 1927 which were bought through local station agents?

The answer is:

No ties are bought through local station agents. It would not be practicable to do this because the station agent has no means of inspecting ties, and any ties which would be offered would usually be located a long way from where a station agent could supervise this work. We have a staff of tie inspectors who inspect all the ties we buy.

We accept all the ties offered to us direct by settlers. Copy of our advertisement which appears continuously for two weeks in all important newspapers throughout the country at locations where persons would have any interest in our tie business is given.

Mr. McLEAN: Would a question be in order at this point?

Sir HENRY THORNTON: May I just ask General Fiset if it is sufficient to put a copy of that in.

Sir EUGENE Fiset: That will be quite sufficient. It does not answer my question, but that does not matter.

Sir HENRY THORNTON: We will try to answer it; if we have not answered it we are sorry.

Sir EUGENE Fiset: That is all right.

Mr. McLEAN: Will a question on ties be in order at this point?

Sir HENRY THORNTON: That is for the Chairman to say. We are in the hands of the Committee. We will try to answer everything put to us.

Mr. McLEAN: The answer reads says that you accept ties from settlers whenever offered or as many as are offered. Just what machinery have you for accepting these ties?

Sir HENRY THORNTON: Mr. Vaughan will perhaps explain that to the Committee.

[Sir Henry Thornton.]

Mr. VAUGHAN: We have inspectors all through the country, Mr. McLean, and if a settler advises us, or one of our chief inspectors, or regional tie agents, that he has ties to offer us, we immediately send out a man to inspect them, and we accept them there.

Mr. McLEAN (Melfort): How do you fix a price on them?

Mr. VAUGHAN: We fix a definite price in every region for settlers' ties.

Mr. McLEAN: What is the difference between settlers' and contractors' ties?

Mr. VAUGHAN: It amounts to about six cents a tie; six to six and a half. I do not just remember off-hand.

Mr. McLEAN: But a settler can write direct to one of your special agents?

Mr. VAUGHAN: Yes, we never refuse to take a tie direct from a settler.

Mr. McLEAN: And your inspector goes and inspects the ties?

Mr. VAUGHAN: Yes. While we show number taken directly from settlers, we probably get a million ties additional, of settlers' ties, through contractors. The settlers do not sell to us direct, because the contractors finance them.

Sir EUGENE Fiset: Do you mean to say you answer every inquiry that you receive even if sent through members of Parliament?

Mr. VAUGHAN: We do not get any inquiries through members of Parliament.

Sir EUGENE Fiset: Do not be too sure of that.

Sir HENRY THORNTON: I might put it this way: that if any member of Parliament has any questions to ask with respect to ties or anything else, he usually writes to me. I endeavour to get an answer to that question from the officer who is in charge of it, and reply to him. I do not know of any instance in which we have neglected to make a reply, and incidentally, I may say, that the answers to questions are numerous.

Sir EUGENE Fiset: I think I have written on a few occasions, but I did not write to you, of course; I wrote, I think, to the Vice-President, and my letter was referred to the Purchasing Branch as far as ties were concerned, but I never got any answer.

Sir HENRY THORNTON: Whom did you write to?

Sir EUGENE Fiset: Mr. Hungerford.

Sir HENRY THORNTON: He is a busy man; you ought to have written to me; I have not anything to do but answer letters. I would say this; that as a general principle any member of the House of Commons who has any question he wants to ask, if he will write to me, I will do my best to get him the answer.

The CHAIRMAN: Gentlemen, if you have no further questions, when we left the analysis at our last meeting we were at page 5. Shall we go on?

Sir HENRY THORNTON: There is one more question, Mr. Chairman.

Mr. HENRY: Colonel Cantley and Sir Eugene Fiset asked for a classification of the expenditures made on the Atlantic region last year. The question was:

Sir HENRY THORNTON: May I file the statement, to be published in the record?

Mr. HENRY: (Reads):

What is the classification of the expenditures made on the Eastern Lines out of the budget for betterments for the year ending December 31st, 1927?

[Sir Henry Thornton.]

Answer:

Please see attached statement of capital expenditures, according to engineering classifications, made on the Atlantic Region, for the year 1927, including:—

Canadian Government Railways
Halifax and Southwestern Railways
Canadian National Railways
Inverness Railway
Vale Railway.

(Statement follows):

CANADIAN NATIONAL RAILWAYS
Eastern Lines (Atlantic Region)
SUMMARY OF CAPITAL EXPENDITURES
YEAR 1927 UNDER ENGINEERING CLASSIFICATION
RECAPITULATION

Corporation	Account No.	Expend. applicable to invest. in road and equipment	Amount charged to Optg. Expenses	Retire-ments of Prop. Cr. to Capital Account	Expend. less retire-ments applicable to investment in road and equipment
		\$ cts.	\$ cts.	- \$ cts.	\$ cts.
Canadian Government Railways.....	701	3,800,154 79	1,035,022 35	1,583,783 05	2,216,371 74
Halifax & Southwestern Railways.....	701	124,803 97	28,462 49	251,631 07	126,827 10
Canadian National Railways.....	701	9,884 45	.....	1,750 58	8,133 87
Total Account Nos. 701 and 706.....	.....	3,934,843 21	1,063,484 84	1,837,164 70	2,097,678 51
Inverness Railway.....	702	51,675 77	11,694 73	11,805 28	39,870 49
Vale Railway.....	702	651 38	.....	.....	651 38
Total Account No. 702....	.....	52,327 15	11,694 73	11,805 28	40,521 87
Total Nos. 701, 702.....	.....	3,987,170 36	1,075,179 57	1,848,969 98	2,138,200 38

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

CANADIAN GOVERNMENT RAILWAYS

SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Credit to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"			1,171 16		
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles	116½	938,794 49	511,533 13	824,443 64	114,350 85
B	Relaying rails (S.H. Rail).....	"	126	412,855 87	176,082 63	304,816 22	108,039 65
C	Tie plates.....	No.	609,464	193,700 75	10,856 94	2,476 00	191,225 75
D	Rail anchors.....	"	35,050	9,498 00			9,498 00
3	Ties.....	"					
4 A	Rock ballast.....	Cu. yds.					
B	Gravel ballast.....	"	48,510	66,261 17	11,496 47		66,261 17
C	Slag ballast.....	"	12,000	3,000 00	11,003 56		3,000 00
5 A	Widening cuts and fills.....	"					
B	Scaling rock cuts.....	No. of I	1	1,276 19			1,276 19
6 A	Rip rap.....	Cu. yds.	2,491	7,077 17			7,077 17
B	Retaining walls and crib work.....	Lin. ft.					
7 A	Ditching.....	Cu. yds.					
B	Tile drainage.....	Lin. ft.	34,629	19,986 86	100 00	100 00	19,886 86
C	Sewers.....	No.	3	3,503 89	634 12	500 00	3,003 89
8 A	Highway and farm crossings.....	"	19	11,687 65	144 00	120 09	11,807 65
B	Roadways and paving.....	N. & S. Y.	11-14,344	15,161 98	9,348 34	10,576 98	4,585 02
9 A	Right of way fence.....	Miles	24½	14,325 77			14,325 77
B	Snow fence.....	Lin. ft.	2½ M	8,429 08	1,410 00	1,410 00	7,019 08
10 A	Large freight terminals.....	No.	1	58,650 17			58,650 17
B	Large passenger terminals.....	"	3	661,186 89	102,135 61	71,293 61	589,893 38
11 A	Other yard tracks and public business sidings.....	N. & M.	47-6	144,543 41	8,422 39	11,358 72	133,184 69
B	Passing tracks.....	"	12-1½	36,214 52	6,077 42	6,345 63	29,868 89
C	Private sidings.....	"	79-1½	21,603 18	3,078 26	20,105 75	1,497 43
12	Roadway miscellaneous.....	No.	72	63,641 76	20,795 37	24,842 67	38,799 09
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"	9	27,067 74	18,515 64	12,699 00	14,368 74
B	Culverts, new or the replacement thereof.....	"	110	30,589 59	11,851 81	8,129 80	22,459 79
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.	5-617 ft.	14,738 01	10,028 97	8,913 00	5,825 01
D	Replacing timber bridges and trestles with culvert and fill.....	No. & L.	7-1,916 ft.	44,284 86	17,815 47	17,161 00	27,123 86
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"	1-147 ft.	11,546 67	2,522 28	2,440 00	9,106 67
14	Tunnels.....	No.					
15 A	Protection or elimination of grade crossings by diversions.....	"	1	750 00			750 00
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"	2	604 58	236 26	500 00	1,104 58
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"	13	7,654 67	6,374 08	6,250 00	1,404 67
16 A	Other station and shelters.....	"	29	104,013 34	22,996 58	19,910 95	84,102 39
B	Freight sheds.....	"	6	9,916 26	1,185 59	8,082 40	1,833 86
C	Stock pens.....	"	6	2,162 46	281 80	250 00	1,912 46
D	Section dwellings and bunkhouses.....	"	11	7,325 38	447 79	1,780 00	5,545 38
E	Platforms.....	"	24	12,397 37	1,624 12	900 96	11,496 41
F	Buildings (miscellaneous).....	"	35	29,787 76	7,984 31	22,370 00	7,417 76
G	Express facilities on railway.....	No. of I.	3	1,177 81	73 94	15 00	1,162 81
H	Track scales.....	No.	3	9,363 42	1,450 18	130 00	9,233 42
				2,980,194 26	974,863 38	1,387,920 21	1,592,274 1

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

CANADIAN GOVERNMENT RAILWAYS

SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
17	Water supplies.....	No.	41	43,544 61	7,555 66	7,797 79	35,746 82
18	Fuel stations.....	"		97 71			97 71
19 A	Turntables.....	"	4	84,293 11	13,770 29	8,600 00	75,693 11
B	Ashpits.....	"	2	2,583 00	110 00	70 00	2,513 00
C	Other enginehouses, machine shops, etc.	"	14	57,826 33	20,651 09	20,535 57	37,290 76
20	Other locomotive and car shop bldg.	"	5	12,672 30	4,448 04	4,160 00	8,512 30
21 A	Docks and wharves and dredging for same.....	"	1	1,318 12	103 45	103 31	1,214 81
22	Grain elevators.....	"		250 00			250 00
23	Automatic block signals and interlocking plants.....	N. & Mi.	4	6,855 04	822 10	789 51	6,065 53
24 A 1	Purchase of locomotives.....	No.	322	204,832 54			204,832 54
2	Betterments to locomotives.....	"	1,492	48,014 41			48,014 41
B 1	Purchase of freight cars.....	"	71			62,295 47	62,295 47
2	Betterments to freight cars.....	"	141	36,991 81			36,991 81
3	Conversions.....	"	11			72,734 42	72,734 42
C 1	Purchase of passenger cars.....	"					
2	Betterments to passenger cars.....	"					
3	Conversions.....	"					
D 1	Purchase of motor equipment cars.....	"					
2	Betterments to motor equipment cars.....	"					
3	Conversions, motor equipment cars.....	"					
E 1	Purchase of floating equipment.....	"					
2	Betterments to floating equipment.....	"					
3	Conversions, floating equipn.ent.....	"					
F 1	Purchase of work equipment.....	"	126	2,120 23			2,120 23
2	Betterments to work equipment.....	"	38	9,522 04			9,522 04
3	Conversions.....	"	82	110,481 79			110,481 79
G 1	Miscellaneous equipment.....	No.					
2	Betterments to miscellaneous equipment.....	"					
25	Shop machinery and tools.....	"	103	89,972 45	6,622 08	14,895 50	75,576 95
26 A	Railway telephone despatch lines and equipment.....	N. & Mi.		124 84			124 84
B	Railway telegraph.....	No.	4	232 95	4,534 44		232 95
27	Purchase of land.....	"	20	8,033 09		2,631 27	5,401 82
28	Electrifying lines.....	"					
29	Co-ordination facilities.....	No. of I.					
30	Surveys, right-of-way and others.....	Miles					
31	Hotels.....	No.					
32	General miscellaneous.....	"	245	58,952 93	79 54	850 00	58,102 93
33	Unforeseen.....	No. of I.					
40	Stores, dept. buildings and equipment.....	"	33	45,075 59	1,462 28	900 00	44,175 59
41	Express dept. equipment.....	"					
42	Traffic dept.....	"	3	247 07			247 07
43	Legal and tax dept.....	"	1	1,320 35			1,320 35
44	Colonization dept.....	"					
45	G.N.W. Telegraph Co.....	"					
46	Can. Nat. Telegraph Co.....	"					
47	Radio dept.....	"					
48	Electric lines in Ontario.....	"					
49	Oshawa Electric Railway.....	"					
50	1,000 Islands Railway.....	"					
51	M. & S. C. Railway.....	"					
52	G.T.P. Coach S.S. Co.....	"					
			819,960	53 60,158 97	195,862 84		624,097 69

RECAPITULATION

Sheet No. 1.....	2,980,194 26	974,863 381,387,920 211,592,274 05.....
Sheet No. 2.....	819,960 53	60,158 97 195,862 84 624,097 69.....
	3,800,154 791,035,022 351,583,783 062,216,371 74.....	

[Sir Henry Thornton.]

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAYS—Continued

EASTERN LINES—Continued

(Atlantic Region)—Continued

HALIFAX AND SOUTHWESTERN RAILWAY

SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles					
B	Relaying rails (S.H. rail).....	"	13 ¹	51,067 82	16,940 26	31,404 22	19,663 60
C	Tie plates.....	No.					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	Cy. Yds.					
B	Gravel ballast.....	"	22,968	27,594 56	2,027 54		27,594 56
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	"					
B	Scaling rock cuts.....	No. of I.					
6 A	Rip rap.....	Cy. Yds.					
B	Retaining walls and crib work.....	Lin. Ft.					
7 A	Ditching.....	Cy. Yds.					
B	Tile drainage.....	Lin. Ft.					
C	Sewers.....	No.					
8 A	Highway and farm crossings.....	"		68 06			68 06
B	Roadways and paving.....	N. & S. Y.					
10 A	Large freight terminals.....	No.					
B	Large passenger terminals.....	"	1	13,305 44	14 00		13,305 44
11 A	Other yard tracks and public business sidings.....	N. & M.	1-105 ft.	10 39	248 10	86 40	76 01
B	Passing tracks.....	"					
C	Private sidings.....	"	7-533 ft.	933 37	53 51	963 92	30 55
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"	1	2,078 05	1,163 68	725 00	1,353 05
B	Culverts, new or the replacement thereof.....	"					
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.	2-418 ft.	7,263 50	4,205 43	3,650 00	3,613 50
D	Replacing timber bridges and trestles with culvert and fill.....	No. and length	2-28½ ft.	1,838 75	907 12	430 00	1,408 75
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"	2-515 ft.	11,560 89			11,560 89
14	Tunnels.....	No.					
15 A	Protection or elimination of grade crossings by diversion.....	"	2	3,083 51			3,083 51
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
16 A	Other station and shelters.....	"		265 17			265 17
B	Freight sheds.....	"	1	400 32			400 32
C	Stock pens.....	"					
D	Section dwellings and bunkhouses.....	"	2	1,498 38	135 00	300 00	1,198 38
E	Platforms.....	"					
F	Buildings (miscellaneous).....	"	1	980 45		40 00	940 45
G	Express facilities on railway.....	No. of I.					
H	Track scales.....	No.	1	285 20	2,767 85	6,274 45	5,989 25
17	Water supplies.....	"					
18	Fuel stations.....	"					
				128,233 86	28,462 49	43,873 99	78,359 87

Note No. 9, A. and B. Omitted—No charges.

[Sir Henry Thornton.]

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

HALIFAX AND SOUTHWESTERN RAILWAY—Continued.

SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
19 A	Turntables.....	No.					
B	Ashpits.....	"					
C	Other enginehouses, machine shops, etc.	"					
20	Other locomotives and car shop buildings.....	"					
21 A	Docks and wharves and dredging for same.....	"					
22	Grain elevators.....	"					
23	Automatic block signals and interlocking plants.....	N. & miles					
24 A 1	Purchase of locomotives.....	No.					
2	Betterments to locomotives.....	"					
B 1	Purchase of freight cars.....	"					
2	Betterments to freight cars.....	"					
3	Conversions.....	"					
C 1	Purchase of passenger cars.....	"					
2	Betterments to passenger cars.....	"					
3	Conversions.....	"					
D 1	Purchase of motor equipment cars.....	"					
2	Betterments to motor equipment cars.....	"					
3	Conversions, motor equipment cars.....	"					
E 1	Purchase of floating equipment.....	"					
2	Betterments to floating equipment.....	"					
3	Conversions, floating equipment.....	"					
F 1	Purchase of work equipment.....	"					
2	Betterments to work equipment.....	"					
3	Conversions.....	"					
G 1	Miscellaneous equipment.....	"					
2	Betterments to miscellaneous equipment.....	"					
25	Shop machinery and tools.....	"	52	1,191 54			1,191 54
26 A	Railway telephone despatch lines and equipment.....	No. & mi.					
B	Railway telegraph.....	No.					
27	Purchase of land.....	"	3	479 67			479 67
28	Electrifying lines.....	"					
29	Co-ordination facilities.....	No. of I.					
30	Surveys right-of-way and others.....	Miles					
31	Hotels.....	No.					
32	General Miscellaneous.....	"	4	898 90		207,757 08	206,858 18
33	Unforeseen.....	No. of I.					
40	Stores department buildings and equipment.....	"					
41	Express department equipment.....						
42	Traffic department.....						
43	Legal and tax department.....						
44	Colonization department.....						
45	G.N.W. Telegraph Co.....						
46	Can. Nat. Telegraph Co.....						
47	Radio department.....						
48	Electric lines in Ontario.....						
49	Oshawa Electric Railway.....						
50	1,000 Islands Railway.....						
51	M. & S.C. Railway.....						
52	G.T.P. Coach S.S. Co.....						
				2,570 11		207,757 08	205,186 97

RECAPITULATION

Sheet No. 1.....			122,233 86	28,462 49	43,873 99	78,359 87
Sheet No. 2.....			2,570 11		207,757 08	205,186 97
			124,803 97	28,462 49	251,631 07	126,827 10

[Sir Henry Thornton.]

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles					
B	Relaying rails (S. H. Rail).....	"					
C	Tie plates.....	No					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	Cu. yds.					
B	Gravel ballast.....	"					
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	"					
B	Scaling rock cuts.....	No. of I.					
6 A	Rip rap.....	Cu. yds.					
B	Retaining walls and cribwork.....	Lin. ft.					
7 A	Ditching.....	Cu. yds.					
B	Tile drainage.....	Lin. ft.					
C	Sewers.....	No.					
8 A	Highway and farm crossings.....		1	166 80			166 80
B	Roadways and paving.....	N. & S.Y.					
9 A	Right of way fence.....	Miles					
B	Snow fence.....	Lin. ft.					
10 A	Large freight terminals.....	No.					
B	Large passenger terminals.....	"					
11 A	Other yard tracks and public business sidings.....	N. & M.	1-463 ft.			1,750 58	1,750 58
B	Passing tracks.....	"					
C	Private sidings.....	"					
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"					
B	Culverts, new or the replacement thereof.....	"					
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.	1-1392 ft.	6,637 22			6,637 22
D	Replacing timber bridges and trestles with culvert and fill.....	No. and length					
E	Replacing timber bridges and trestles with permanent concrete or steel bridges.....	"					
14	Tunnels.....	No					
15 A	Protection or elimination of grade crossings by diversions.....	"					
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
16 A	Other station and shelters.....	"					
B	Freight sheds.....	"					
C	Stock pens.....	"					
D	Section dwellings and bunkhouses.....	"					
E	Platforms.....	"					
F	Buildings (Miscellaneous).....	"					
G	Express facilities on railway.....	No. of I.					
H	Track scales.....	No.					
17	Water supplies.....	"					
				6,804 02		1,750 58	5,053 44

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

SUMMARY OF CAPITAL EXPENDITURES

Account No. 701

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
18	Fuel stations	No					
19 A	Furntables	"					
B	Asphits	"					
C	Other enginehouses, machine shops, etc.	"					
20	Other locomotive and car shop building	"					
21 A	Docks and wharves and dredging for same	"					
22	Grain elevators	"					
23	Automatic block signals and interlocking plants	N. & Mi.					
24 A 1	Purchase of locomotives	No.					
2	Betterments to locomotives	"	18	1,934 86			1,934 86
B 1	Purchase of freight cars	"					
2	Betterments to freight cars	"					
3	Conversions	"					
C 1	Purchase of passenger cars	"					
2	Betterments to passenger cars	"	23	1,145 57			1,145 57
3	Conversions	"					
D 1	Purchase of motor equipment cars	"					
2	Betterments to motor equipment cars	"					
3	Conversions to motor equipment cars	"					
E 1	Purchase of floating equipment	"					
2	Betterments to floating equipment	"					
3	Conversions, floating equipment	"					
F 1	Purchase of work equipment	"					
2	Betterments of work equipment	"					
3	Conversions of work equipment	"					
G 1	Miscellaneous equipment	"					
2	Betterments to miscellaneous equipment	"					
25	Shop machinery and tools	"					
26 A	Railway telephone despatch lines and equipment	N. & Mi.					
B	Railway telegraph	No					
27	Purchase of land	"					
28	Electrifying lines	"					
29	Co-ordination facilities	No. of I					
30	Surveys, right-of-way and others	Miles					
31	Hotels	No.					
32	General miscellaneous	"					
33	Unforeseen	No. of I.					
40	Stores dept. building and equipment	"					
41	Express dept. equipment						
42	Traffic department						
43	Legal and tax dept						
44	Colonization dept						
45	G. N. W. Telegraph Co						
46	Can. Nat. Telegraph Co						
47	Radio dept.						
48	Electric lines in Ontario						
49	Oshawa Electric Railway						
50	1000 Islands Railway						
51	M. and S. C. Railway						
52	G.T.P. Coach S.S. Co						
				3,080 43			3,080 43

RECAPITULATION

Sheet No. 1		6,804 02	1,750 58	5,053 44
Sheet No. 2		3,080 43		3,080 43
		9,884 45	1,750 58	8,133 87

[Sir Henry Thornton.]

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

INVERNESS RAILWAY

SUMMARY OF CAPITAL EXPENDITURES

Account No. 702

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles	3-4,782ft.	15,025 00	9,894 73	9,461 33	5,563 67
B	Relaying rails (S.H. Rail.).....	"					
C	Tie plates.....	No.					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	cu. yds.					
B	Gravel ballast.....	"	19,200	9,399 08			9,399 08
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	"	20,670	7,909 39			7,909 39
B	Scaling rock cuts.....	No. of I.					
6 A	Rip rap.....	cu. yds.					
B	Retaining walls and crib work.....	lin. ft.					
7 A	Ditching.....	cu. yds.					
B	Tile drainage.....	lin. ft.					
C	Sewers.....	No.					
8 A	Highway and farm crossings.....	N. & S.Y.					
B	Roadways and paving.....	Miles					
9 A	Right of way fence.....	lin. ft.	6,364	2,689 70			2,689 70
B	Snow fence.....	No.					
10 A	Large freight terminals.....	"					
B	Large passenger terminals.....	"					
11 A	Other yard tracks and public business sidings.....	N. & M.					
B	Passing tracks.....	"					
C	Private sidings.....	"	1-617			543 95	543 95
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"					
B	Culverts, new or the replacement thereof.....	"	10	3,784 46			3,784 46
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.					
D	Replacing timber bridges and trestles with culvert and fill.....	No. and length					
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"					
14	Tunnels.....	No					
15 A	Protection or elimination of grade crossings by diversions.....	"					
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
A	Other station and shelters.....	"	1	5,988 46			5,988 46
B	Freight sheds.....	"					
C	Stock pens.....	"					
D	Section dwellings and bunkhouses.....	"					
E	Platforms.....	"					
F	Buildings (miscellaneous).....	No. of I.					
G	Express facilities on railway.....	"					
H	Track scales.....	"					
				44,796 09	9,894 73	10,005 28	34,790 81

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

INVERNESS RAILWAY

SUMMARY OF CAPITAL EXPENDITURES

Account No. 702

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts.	\$ cts.	\$ cts.	\$ cts.
17	Water supplies.....	No.	1	6,858 67	1,800 00	1,800 00	5,058 67
18	Fuel stations.....	"					
19 A	Turntables.....	"					
B	Ashpits.....	"					
C	Other enginehouses, machine shops, etc.	"					
20	Other locomotive and car shop building	"					
21 A	Docks and wharves and dredging for same	"					
22	Grain elevators	"					
23	Automatic block signals and interlocking plants	N. & Mi.					
24 A 1	Purchase of locomotives.....	No.					
2	Betterments to locomotives.....	"					
B 1	Purchase of freight cars.....	"					
2	Betterments to freight cars.....	"					
3	Conversions.....	"					
C 1	Purchase of passenger cars.....	"					
2	Betterments to passenger cars.....	"					
3	Conversions.....	"					
D 1	Purchase of motor equipped cars.....	"					
2	Betterments to motor equipped cars.....	"					
3	Conversions, motor equipped cars.....	"					
F 1	Purchase of floating equipment.....	"					
2	Betterments to floating equipment.....	"					
3	Conversions, floating equipment.....	"					
F 1	Purchase of work equipment.....	"					
2	Betterments to work equipment.....	"					
3	Conversions.....	"					
C 1	Miscellaneous equipment.....	"					
2	Betterments to miscellaneous equipment	"					
25	Shop machinery and tools.....	"					
26 A	Railway telephone despatch lines and equipment.....	N. & Mi.					
B	Railway telegraph.....	No.		21 01			21 01
27	Purchase of land.....	"					
28	Electrifying lines.....	"					
29	Co-ordination facilities.....	No. of I.					
30	Surveys right-of-way and others.....	Miles					
31	Hotels.....	No.					
32	General miscellaneous.....	"					
33	Unforeseen.....	No. of I.					
40	Stores Dept. and Equip.....	"					
41	Express Dept. and Equip.....	"					
42	Traffic Dept.....	"					
43	Legal and Tax Dept.....	"					
44	Colonization Dept.....	"					
45	G.N.W. Telegraph Co.....	"					
46	Can. Nat. Teleg. Co.....	"					
47	Radio Dept.....	"					
48	Electric lines in Ontario.....	"					
49	Oshawa Electric Railway.....	"					
50	1000 Islands Railway.....	"					
51	M. and S. C. Railway.....	"					
52	G.T.P. Coach S.S. Co.....	"					
				6,879 68	1,800 00	1,800 00	5,079 68

RECAPITULATION

Sheet No. 1.....			44,796 09	9,894 73	10,005 28	34,790 81
Sheet No. 2.....			6,879 68	1,800 00	1,800 00	5,079 68
			51,675 77	11,694 73	11,805 28	39,870 49

[Sir Henry Thornton.]

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAYS

EASTERN LINES

(Atlantic Region)

VALE RAILWAY

SUMMARY OF CAPITAL EXPENDITURES

Account No. 702

Year 1927 under Engineering Classification

Group	Class of Work	Unit or Number to be used	Unit or Number	Expenditure applicable to Investment in Road and Equipment	Amount charged to Operating Expenses	Retirement of Property Cr. to Capital Account	Expenditure less retirements applicable to Investment in Road and Equipment
				\$ cts	\$ cts	\$ cts.	\$ cts.
1 A	New lines constructed.....	No. & Mi.					
B	New lines acquired.....	"					
C	Line diversions.....	"					
D	Double tracking.....	"					
2 A	New rails and fastenings.....	Miles					
B	Relaying rails (S.H. rails).....	"		651 38			651 38
C	Tie plates.....	No.					
D	Rail anchors.....	"					
3	Ties.....	"					
4 A	Rock ballast.....	Cu. Yds.					
B	Gravel ballast.....	"					
C	Slag ballast.....	"					
5 A	Widening cuts and fills.....	"					
B	Scaling rock cuts.....	No. of I.					
6 A	Rip rap.....	Cu. Yds.					
B	Retaining walls and crib work.....	Lin. ft.					
7 A	Ditching.....	Cu. Yds.					
B	Tile drainage.....	Lin. ft.					
C	Sewers.....	No.					
8 A	Highway and farm crossings.....	"					
B	Roadways and pavings.....	N. & S. Y.					
9 A	Right of way fence.....	Miles					
B	Snow fence.....	Lin. ft.					
10 A	Large freight terminals.....	No.					
B	Large passenger terminals.....	"					
11 A	Other yard tracks and public business sidings.....	N. & M.					
B	Passing tracks.....	"					
C	Private sidings.....	"					
12	Roadway miscellaneous.....	No.					
13 A	New steel bridges or the replacement with concrete or steel bridges.....	"					
B	Culverts, new, or the replacement thereof.....	"					
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind.....	No. & L.					
D	Replacing timber bridges and trestles with culvert and fill.....	No. and length					
E	Replacing timber bridge and trestles with permanent concrete or steel bridges.....	"					
14 A	Protection or elimination of grade crossings by diversions.....	No.					
B	Protection or elimination of grade crossings by subways or overhead bridge.....	"					
C	Replacement of present overhead bridges.....	"					
D	Highway crossing protection by gates, flashing lights, wigwags, etc.....	"					
16 A	Other station and shelters.....	"					
B	Freight sheds.....	"					
C	Stock pans.....	"					
D	Section dwellings and bunkhouses.....	"					
	Total.....			651 38			651 38

Note, No. 17 to No. 52 not listed—No charges.

[Sir Henry Thornton.]

Hon. Mr. DUNNING: At our last meeting we stopped at page 5 of the Accounts. Every member of the Committee had this analysis at the last meeting. It was got out in order that we might better understand it. Have you any extra copies, for members of the Committee only?

Sir HENRY THORNTON: I think, Mr. Chairman, that I might make this suggestion, if it is agreeable to the Committee, that as we have circulated to the members of the Committee detailed explanations with respect to the expenditures in each department, perhaps instead of reading all these figures, some of which might be superfluous, we might take Traffic, Transportation, and the expenses under these various headings, and then ask the Committee if any member wants to ask any question about any particular subdivision of expenses. It will save reading all these figures.

Hon. Mr. DUNNING: You have already read four pages, Sir Henry, and there are only three and a half pages left.

Sir HENRY THORNTON: I thought it would save time, but it is for the members to decide.

The CHAIRMAN: Start at the top of page 5.

Sir HENRY THORNTON: Mr. Henry will please commence with Traffic Expenses, starting at the top of page 5.

Mr. HENRY: (Reads):

Traffic expenses, 1927.. . . .	\$7,124,865
Traffic expenses, 1926.. . . .	6,440,088 Inc. \$684,777

Principal increases—

Superintendence.. . . .	177,640
Advertising.. . . .	175,162
Outside agencies.. . . .	165,186
Colonization, Agriculture and Natural Resources.. . . .	86,652

The CHAIRMAN: Stop there, Mr. Henry. Does anybody want any explanation of these items?

Mr. JELLIFF: Where does the increase in superintendence come in; can we get the details of that?

Mr. HENRY: An increase in superintendence as well as increased rates of pay.

Sir HENRY THORNTON: Some increased pay, and an increase in solicitation forces.

Mr. McLEAN (Melfort): Consisting almost entirely of the cost of securing freight?

Sir HENRY THORNTON: The cost, as you say, of securing business.

Mr. McLEAN (Melfort): An increase is a good sign, in that department?

Sir HENRY THORNTON: An increase is a good sign, if you get the business.

The CHAIRMAN: All right, Mr. Henry, go on.

Mr. HENRY: Transportation:

Transportation Expenses 1927, \$105,166,761.

Sir EUGENE Fiset: Before you leave Traffic, there is an item there for advertising; can you tell us particularly what that involved. Does it include the issue of passes as well as transportation to each paper on advertising? Is that taken into consideration?

Mr. HENRY: It is free transportation given in exchange for newspaper space.

[Sir Henry Thornton.]

Sir EUGENE Fiset: Is that included in this amount?

Mr. HENRY: Yes.

Mr. McLEAN (Melfort): You could hardly call that free transportation, could you?

Sir HENRY THORNTON: It is transportation in return for services rendered.

Mr. McLEAN (Melfort): But the word "free" was used.

Mr. HENRY: That was a mistake. It was transportation.

Sir EUGENE Fiset: The value of the passes issued is included in this financial statement?

Mr. HENRY: That is true.

Mr. THOMPSON: May I make a statement in regard to that? All this increase in transportation is charged against our advertising expropriation as cash expenditure.

Hon. Mr. DUNNING: So it is not free?

Mr. WALTER THOMPSON: There is no such word in the whole Railway Act as "free" transportation.

Hon. Mr. DUNNING: No.

Sir EUGENE Fiset: How is it administered?

Mr. THOMPSON: It is administered in this way; we have an arrangement with a newspaper, either a weekly or a daily newspaper, for the issuance of transportation. Many newspapers have no cash contracts, they have transportation contracts. A ticket is presented on a train. It is taken into our revenues in exactly the same way as it is in the ticket office, or as a ticket issued out of the depot ticket office would be, and it is charged against the advertising account, which you see in that amount. A very large amount of that money is transportation.

Mr. McLEAN (Melfort): It is charged up against the newspapers?

Mr. THOMPSON: We take it out in various forms, sometimes display advertising, sometimes reader notices, but we get a perfect balance in connection with the exchange. There is no such thing as free transportation on the railroad to-day.

Mr. MILNE: Why the increase in the colonization and agriculture expenses?

Sir HENRY THORNTON: It is a general strengthening of the Colonization fabric. Perhaps Mr. Robb can answer that question better than I can.

Mr. ROBB: Sixteen per cent of our business is brought about in that way, and it is spread over our colonization and natural resources.

Sir HENRY THORNTON: We can give you all the details, but in a general way it is a strengthening of the Colonization and Agriculture and Natural Resources Departments, spending more money to get more results.

Mr. McLEAN (Melfort): I suppose you have, in connection with that policy, sold more lands and secured more settlement?

Sir HENRY THORNTON: Yes. What percentage of the immigrants to Canada did we handle last year, Mr. Robb?

Mr. ROBB: I think last year we handled about 32 to 35 per cent; no, last year we handled 57 per cent.

Sir HENRY THORNTON: We handled 57 per cent of the immigrants that came to Canada; they came through the instrumentality of the Canadian National Railways.

Mr. JELLIFF: It is all given on page 9 of the report.

Sir HENRY THORNTON: You will find it on page 9, under Colonization, general explanations.

[Sir Henry Thornton.]

Mr. ROBB: We brought in 38,000 as against 31,000 the year before.

Sir HENRY THORNTON: Shall we go on with Transportation?

Mr. JELLIFFE: Outside agencies, increase \$165,000; are there any new agencies established?

Sir HENRY THORNTON: That represents the establishment of new agencies outside the Dominion of Canada. For instance, not so long ago we opened a new office at Memphis, Tennessee, which is an important gateway, and where we were not represented before. As a result of that, we were losing business. We opened an agency, and put in an agent and a stenographer at Memphis, to protect that gateway.

Mr. JELLIFF: What class of business are you getting?

Sir HENRY THORNTON: General business, some oil, rubber and cotton. We have improved our offices at various places throughout the States, particularly our passenger offices; we have put them in better locations, and in general are increasing activities in the solicitation of traffic on the other side of the border.

Mr. JELLIFF: Were any other agencies opened, besides at Memphis?

Sir HENRY THORNTON: At Washington. In every case we have added to the solicitation forces at stations already existing.

The CHAIRMAN: Are there any further questions on Traffic?

Mr. HENRY: Transportation.

Transportation Expenses, 1927. . .	\$105,186,761	
Transportation Expenses, 1926. . .	100,603,158	*\$4,563,603

* Increase

The principal increases are:

Trainmen.	\$ 1,015,000
Train Enginemen.	631,000
Fuel for Locomotives.	593,000
Station Employees.	475,000
Train Supplies and Expenses. . .	324,000
Yard Conductors and Brakemen. .	291,000
Express Service.	252,000
Operating floating equipment. . .	245,000

The principal decrease is:

Superintendence.	\$ 102,000
--------------------------	------------

The increase in trainmen is due to increased rate of pay \$658,000 and increased hours worked \$357,000. Train enginemen's rates of pay \$339,000; increased work, \$292,000.

Fuel for locomotives, increased price \$238,000, and increased consumption \$487,000. There was a credit to this account of \$102,000 B.C. Sales Tax on fuel oil cancelled.

Increase in station employees account was caused by increased rates of pay \$474,000. Train supplies and expenses, increased rates of pay, \$94,000; detouring charges due to floods, \$61,000. Yard conductors and brakemen, increased rates of pay \$222,000; additional hours worked, \$69,000. Express service, increased rates of pay, \$44,000, and accountancy item, \$64,000, due to revised method of apportioning expense between the C.N.R. and the Eastern Lines.

[Sir Henry Thornton.]

Mr. CANTLEY: What is the meaning of that item of \$64,000 covering the revised method of apportioning expense between the C.N.R. and the Eastern Lines?

Mr. COOPER: Previous to the establishment of the Eastern Lines, we divided the revenue.

Mr. CANTLEY: What date was that?

Mr. COOPER: July 1, 1927. We divided the revenue and expenses of the Express Department, as between regions, on an arbitrary basis. With the establishment of the Eastern Lines, we thought it necessary to make a more accurate division and apportionment. The revenue of the Eastern Lines was decreased, and the apportionment of expenses on the Eastern Lines was correspondingly decreased.

Hon. Mr. DUNNING: That is a decreased expense charged to Eastern Lines on the Express account?

Mr. COOPER: Yes, sir, due to revised apportionment.

Mr. CANTLEY: You say "decreased," while this says "increased."

Hon. Mr. STEVENS: That is an increase outside of the Eastern Lines.

Sir HENRY THORNTON: It is an increase on that part of the system with which you are dealing now. It will appear as a decrease on the Eastern Lines.

Mr. HENRY: (Reads):

Operating Floating Equipment;

Two new ferries were put in operation on Lake Michigan. There was also increased service to Prince Edward Island.

Sir EUGENE Fiset: What was the cost of those ferries?

Mr. VAUGHAN: \$1,478,000 for the two ferries.

Mr. CANTLEY: Did the boats make more trips and carry more freight?

Mr. HENRY: Yes, there were more trips, and I think there was another boat put on for a while.

Mr. BROWN: We brought the old "Scotia" up there for a relief period, as well.

Mr. CANTLEY: To supplement the ferry?

Mr. BROWN: Yes.

Mr. JELLIFF: What were the two new ferries on Lake Michigan, and where were they put on?

Sir HENRY THORNTON: We operate train ferries from Grand Haven to Milwaukee. This affords a direct traffic route from the east to the west, eliminating Chicago. If those ferries were not in existence, freight moving east of Chicago would have to pass through Chicago.

Mr. JELLIFF: You have a line running to Grand Haven?

Sir HENRY THORNTON: Yes.

Mr. JELLIFF: Which connects with your line in Chicago?

Sir HENRY THORNTON: Yes. To pass freight through Chicago is expensive, and involves a good deal of delay. This route is becoming more and more popular; first, because it is more expeditious, and, secondly, because it is cheaper. The volume of business is increasing with rapidity, and these two new ferries were put on to give us that facility.

Sir EUGENE Fiset: Are those ferries larger than those on the Main Line?

Sir HENRY THORNTON: I do not know, but I should say that probably they are.

Mr. VAUGHAN: These ferries carry twenty-six loaded cars.

[Sir Henry Thornton.]

An Hon. MEMBER: Do you find the traffic from Prince Edward Island to the mainland increasing all the time?

Sir HENRY THORNTON: Yes. The potato crop gives quite a material increase.

Mr. CANTLEY: What are you doing about a new ferry for Prince Edward Island?

Sir HENRY THORNTON: These ferries are owned by the Government, but we have the strengthening of our ferry service under consideration, but we have not determined definitely with the Government what to do. There has been a good deal of talk, and with some merit, that there should be an additional ferry, not only to take care of the increased business, but to provide a more positive service in the event of one ferry going out of service for some unanticipated reason.

Mr. CANTLEY: I would like to know what you are doing about it. Have you ordered another boat, or are you going to?

Sir HENRY THORNTON: I do not know whether we are going to order one or not; that is under consideration.

Mr. CANTLEY: Who will know, the Minister?

Sir HENRY THORNTON: The Minister and I will probably talk about it, and decide what we had better do.

Mr. CANTLEY: Have you talked about it?

Sir HENRY THORNTON: Oh, yes.

Mr. CANTLEY: What has been done?

Sir HENRY THORNTON: Nothing as yet. May I round up the situation by saying this; the traffic to and from Prince Edward Island is increasing.

Mr. CANTLEY: This ferry boat is 13 or 14 years old and she may break down at any time, and the Island is dependent on one boat.

Sir HENRY THORNTON: It is not quite as bad as that, but there is a measure of truth in what you say. The situation is receiving serious consideration, and is not going to be overlooked.

Mr. CANTLEY: But nothing was done this year?

Sir HENRY THORNTON: Nothing this year.

Sir EUGENE Fiset: Have you been approached in any way, shape or form by the paper companies operating on the North Shore, to have a car-ferry between the North Shore and Rimouski?

Sir HENRY THORNTON: I do not think so. Do you recall anything, Mr. Vaughan??

Mr. VAUGHAN: No.

Sir HENRY THORNTON: No, I do not recall anything. There has been a certain amount of disconnected discussion about it.

Sir EUGENE Fiset: I hope you will consult with the Minister when you consider the matter.

Sir HENRY THORNTON: We always seek the advice of those who can give us intelligent information.

Mr. HENRY: (Reads):

Decrease in superintendence is due to a readjustment of expenses to other accounts.
Increased rates of pay amounted to \$59,000.

The effect of the various main factors:

Change in price of material:

Fuel.....	*\$ 238,000	
Other Material and Miscellaneous..	† 1,303,000	
Rebate of B.C. Sales tax..	† 132,000	†\$1,197,000

[Sir Henry Thornton.]

SELECT STANDING COMMITTEE

Changes due to variation in quantities of Material:

Fuel.. . . .	*\$ 487,000	
Other Material and Miscellaneous.. . . .	* 1,822,000	*\$2,309,000

Changes in employees' compensation:

Increased rates of pay.. . . .	*\$2,299,000	
Increased hours worked.. . . .	* 1,359,000	
Accountancy items.. . . .	* 188,000	*\$3,470,000

Total (after credit for transportation for investment).. . . *\$4,582,000

* Increase † Decrease

The increase in quantity of labour and material after adjustment for accidents was \$3,364,000, while the increase which might be expected due to change in traffic was \$1,432,000.

Sir HENRY THORNTON: That covers all the transportation.

The CHAIRMAN: Are there any questions you wish to ask on that, before we leave that item?

Sir EUGENE Fiset: In this item you have the words "conductors and brakemen." Does that include the salaries paid to roadmasters?

Sir HENRY THORNTON: No, they come under "Maintenance of way", which item we have already been over.

Mr. HENRY: (Reads):

Miscellaneous:

Miscellaneous Expenses, 1927.. . . .	\$2,414,842	
Miscellaneous Expenses, 1926.. . . .	2,121,607	*\$293,235

The principal increase is in Dining and Buffet Service \$312,000, increased rates of pay account for \$27,000 and the balance is made up of improvement and increase in service.

General:

General Expenses, 1927.. . . .	\$7,226,200	
General Expenses, 1926.. . . .	6,970,244	*\$255,956

Principal Increases:

Pensions.. . . .	\$ 155,000	
Salaries and Expenses Clerks and Attendants.. . . .	93,000	
Other Expenses.. . . .	74,013	

* Increase

Hon. Mr. STEVENS: What does that item, "General Expenses" cover, briefly?

Sir HENRY THORNTON: Mr. Cooper, will you tell Mr. Stevens the general items that are included in the item of General Expenses?

Mr. COOPER: The general overhead that would not come directly under the Maintenance of Way, Maintenance of Equipment, or Transportation. For instance, the salary of the President would be a general expense; legal expense; head office clerks, and so on.

Mr. HENRY: (Reads):

Transportation for Investment Cr.:

Transportation for Investment Cr., 1927.. . .	\$ 993,350	
Transportation for Investment Cr., 1926.. . .	1,012,478	†\$19,128

† Decrease

Mr. CANTLEY: What is the meaning of "Transportation for Investment"?

Mr. COOPER: That is the expense of transporting men and material for construction work, which is credited to the Operating Expense Account.

[Sir Henry Thornton.]

Mr. HENRY: (Reads):

The Eastern Lines Accounts are shown separately for six months from July 1st, the date of the Maritime Freight Rates Act coming into force, to December 31st. The 1926 figures are also shown for comparative purposes.

Eastern Lines for six months, July 1st to December 31st:—

Item	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 3,800,025 39	\$ 3,794,940 64	†\$ 5,084 75
Maintenance of Equipment..	2,473,951 91	2,445,504 78	† 28,447 13
Traffic..	379,200 54	374,452 60	† 4,747 94
Transportation..	6,799,526 39	7,227,285 71	* 427,759 32
Miscellaneous..	191,460 56	219,327 07	* 27,866 51
General..	611,317 65	673,183 62	* 61,865 97
Transportation for Investment Cr....	23,499 33	20,841 99	† 2,657 34
	\$14,231,983 11	\$14,713,852 43	*\$481,869 32

* Increase † Decrease

The expenses analyzed into primary accounts may be found on pages 43 to 46 of the preliminary statement of accounts tabled in the House of Commons.

The expenses may be further divided between employees compensation and materials and miscellaneous. The division is as follows:—

Employees Compensation	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 2,012,530 00	\$ 2,076,487 00	*\$ 63,957 00
Maintenance of Equipment..	1,283,041 00	1,290,895 00	* 7,854 00
Traffic..	175,194 00	180,885 00	* 5,691 00
Transportation..	4,425,438 00	4,781,866 00	* 356,428 00
Miscellaneous..	103,403 00	119,318 00	* 15,915 00
General..	300,473 00	321,997 00	* 21,524 00
	\$ 8,300,079 00	\$ 8,771,448 00	*\$471,369 00

* Increase

Materials and Miscellaneous	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 1,787,495 00	\$ 1,718,454 00	†\$ 69,041 00
Maintenance of Equipment..	1,190,911 00	1,154,610 00	† 36,301 00
Traffic..	204,007 00	193,567 00	† 10,440 00
Transportation..	2,350,589 00	2,424,578 00	* 73,989 00
Miscellaneous..	88,057 00	100,000 00	* 11,952 00
General..	310,845 00	351,186 00	* 40,341 00
	\$ 5,931,904 00	\$ 5,942,404 00	*\$ 10,500 00

* Increase † Decrease

Mr. CANTLEY: What is the difference between traffic and transportation?

Mr. HENRY: Traffic represents the solicitation; transportation represents the handling of traffic.

The expenses analyzed into primary accounts may be found on pages 43 to 46 of the preliminary statement of accounts tabled in the House of Commons.

The expenses may be further divided between employees' compensation and materials and miscellaneous. The division is as follows:

Hon. Mr. DUNNING: This is all eastern lines from now on?

Mr. HENRY: Yes. (Reading):

Employees Compensation	1926	1927	Decrease or Increase
Maintenance of Way and Structures..	\$ 2,012,530 00	\$ 2,076,487 00	*\$ 63,957 00
Maintenance of Equipment..	1,283,041 00	1,290,895 00	* 7,854 00
Traffic..	175,194 00	180,885 00	* 5,691 00
Transportation..	4,425,438 00	4,781,866 00	* 356,428 00
Miscellaneous..	103,403 00	119,318 00	* 15,915 00
General..	300,473 00	321,997 00	* 21,524 00
	\$ 8,300,079 00	\$ 8,771,448 00	*\$471,369 00

* Increase

[Sir Henry Thornton.]

Sir HENRY THORNTON: That means the total increase of \$471,000 was due to increased compensation, and you will see below \$10,000 due to material and miscellaneous. That accounts for the total increase of \$481,000.

Hon. Mr. DUNNING: I do not think you need to read the other items. They are all very small.

Sir HENRY THORNTON: I do not think there is anything on the next page which adds anything.

Hon. Mr. STEVENS: Sir Henry (Thornton), I do not know whether I am treading on delicate ground or not—

Sir HENRY THORNTON: Tread as much as you like.

Hon. Mr. STEVENS: They say, "Fools wade in where angels fear to tread" and maybe this is an occasion of that kind, but I notice some conflict or contest between the Canadian National and the C.P.R. in the hotel situation in Halifax.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: I think it would be a good idea if we could have some explanation of that. The reason I ask the question is this. I think Parliament has accepted for years the policy of trying to avoid duplication as far as possible in the two railway systems—

Sir HENRY THORNTON: That will come up as a special item in the estimates, if you care to defer your question until then.

Hon. Mr. STEVENS: I have no object in pressing the question now.

Sir HENRY THORNTON: Press as much as you like, but when discussing the estimates, that item will be included, and that will, I should think, be the proper place to bring it up.

Hon. Mr. DUNNING: It is a proposed expenditure, and as such we can deal with it more intelligently in the estimates.

Hon. Mr. STEVENS: Just keep that in mind, and we can discuss it later.

Sir HENRY THORNTON: Yes. I fully expected that would be one of the questions which would arise.

Hon. Mr. STEVENS: It is a question of the wisdom of duplication; that is all.

Sir HENRY THORNTON: I quite appreciate that. I think, Mr. Chairman, if I may say this, the Committee has now examined all of the items which enter into the expenses of the National Railway System, and unless further questions are to be asked, we have finished with the income accounts.

Hon. Mr. STEVENS: That is dealing with operation.

Sir HENRY THORNTON: Mr. Dunning suggests you might like to take up the annual report.

Hon. Mr. DUNNING: The president's statement. However, it is up to the Committee. Personally, I am fully satisfied with it, but if the Committee wishes to take it up, it is usual to do so at this time.

Sir EUGENE Fiset: The fact remains that we have perused the preliminary report, and the report of the Canadian National Railways is practically a copy of it. If there are no further questions, I move the report be adopted.

Hon. Mr. STEVENS: I do not quite get that.

Sir EUGENE Fiset: The explanations in the preliminary report are practically the same as those contained in the main report of the Canadian National Railways. We have examined the analysis of that report, and if there are no further questions, we might as well approve it.

Hon. Mr. STEVENS: That would be a very convenient short-cut, but I do not think it would be a wise one.

Sir HENRY THORNTON: I think General Fiset means that you have examined the primary accounts which make up the expenses of the Canadian National

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Railways, and he suggests that you approve the report in so far as the expenses are concerned. This does not deal with the capital expenditures at all.

Sir EUGENE Fiset: It will be an occasion for discussion when the estimates are before us.

Sir HENRY THORNTON: You have simply dealt with the current expenses for the year.

Mr. McLEAN (Melfort): Mr. Chairman, I would like to draw attention to the item of "Maintenance of Way and Structures" on pages 6 and 7. The wage increase is quite large, but the total increase is very small, if any. There is a decrease in the last item on page 7 of \$59,000, and I notice decreases in various items of maintenance, and I also notice something of the same tendency elsewhere. There is an increase in compensation and wages in quite a few items, but there are quite a few decreases in maintenance of way and structures. The question is, are the lines being fully kept up or improved.

Sir HENRY THORNTON: "Maintenance of Way and Structures" decreased \$5,000. Practically speaking, having regard for the amount involved, that is about the same one year as another; that is to say, there has only been a variation of \$5,000 for the last six months in "Maintenance of Way and Structures" with respect to the eastern lines. While there is a decrease, the \$5,000 there is a relatively small amount, and it means, practically speaking, that the expenses have been the same.

Mr. McLEAN (Melfort): There has been a large increase in compensation and wages.

Sir HENRY THORNTON: The increase there was practically \$64,000. Then you say "Does that mean the lines have been allowed to deteriorate?"—

Mr. McLEAN (Melfort): That is my question.

Sir HENRY THORNTON: —and the answer is "No, they have not". From year to year you may expend a little more this year than you did last year, in maintenance. You may be confronted with a situation which involves the laying of heavier rails this year. Those rails, once laid, may not be renewed for ten years, so that you cannot always spend exactly the same amount every year. In estimating whether a property is deteriorating or not, you have to look at it not for a period of twelve months, but over a period of years. From my knowledge of the eastern lines, I would say that the track and the general condition of the property is better than it was in the past year, and is very considerably better than it was four years ago.

Sir EUGENE Fiset: I hope that statement applies to the unfortunate section of the eastern lines which we call "the orphan line" between Riviere du Loup and Campbellton.

Sir HENRY THORNTON: We have no "orphans" General.

Sir EUGENE Fiset: For instance, the fences between Riviere du Loup and Campbellton have not been touched for thirty years. We are succeeding bit by bit in getting a few miles of fences built yearly. I do not know whether it is due to the fact that there is a deficit on the eastern lines, but we have a great deal of difficulty in having these fences placed in proper shape. They have adopted the programme lately of improving them somewhat, but in the meantime valuable animals are being killed almost daily.

Sir HENRY THORNTON: The point to which you call attention, General, merits attention. There is no doubt but what the general condition of the fences on—for want of a better name—what we call the "eastern lines" has not been good. We are improving them year by year, but like other things we cannot improve them all at once, at least not without running into an enormous expense, but we are improving the general condition. For the six months

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ending December 31, 1927, we spent, in round figures, \$46,000 on fences. For the same period in 1926 we spent \$26,000. In other words, we increased our expenditures in the territory of which you spoke for fences from \$26,000 to \$46,000, about \$20,000, or approximately 75 per cent. That is, we spent 75 per cent more on fences in the last six months this year than in the same period of 1926. So you can see we are going ahead with rapidity in correcting the situation to which you call attention.

Hon. Mr. DUNNING: I might help the General by pointing out that in the future if he, or any others, feel aggrieved in this matter, they need not come to Sir Henry Thornton or the other officers, but they can go to the Board of Railway Commissioners, the same as the unfortunate people in the other parts of the country.

Sir HENRY THORNTON: General (Sir Eugene Fiset), do you not think an increase of 75 per cent in that particular item is evidence of a very substantial attempt on our part to correct the situation.

Mr. CANTLEY: That would depend on the amount you spent the previous year. If you spent one dollar, and the increase was 75 cents, it would not amount to very much. How much did you pay out the year before?

Sir HENRY THORNTON: I can only speak in periods of six months. For the six months ending December 31st, 1927, we spent \$46,000.

Mr. CANTLEY: Over how much mileage?

Sir HENRY THORNTON: For the same period in 1926 we spent \$26,000.

Mr. CANTLEY: Over how much mileage?

Sir HENRY THORNTON: Approximately 2,800 miles.

Hon. Mr. STEVENS: On the eastern lines?

Hon. Mr. DUNNING: The eastern lines, until the amendment passed the House of Commons the other day, were not amenable to orders of the Board in that regard. From now on, those who are aggrieved can go to the Board if they are not satisfied with what the railroad is doing.

Mr. CANTLEY: It is spread out pretty thin.

Sir HENRY THORNTON: Yes, but you cannot do everything at once.

Mr. CANTLEY: I know, Sir Henry (Thornton), but fencing is a matter that you can get done by contract, or do it yourself.

Sir HENRY THORNTON: Yes, but you have to pay for it.

Mr. CANTLEY: There is very little except advice you can get in this country that you do not pay for.

Sir EUGENE FISET: What some of us are afraid of is the fact that we are facing a yearly deficit on the eastern lines, and we are afraid the Canadian National will not give us the same consideration, due to that fact, which the other parts of the line are receiving.

Sir HENRY THORNTON: As a matter of fact, General, that is something you have got to leave to the fidelity of the officers who administer the property. As far as the Canadian National is concerned, I make no distinction between the Eastern lines and the Western Region. We try to administer the properties and spend that amount of money which we think we should spend, and go as far as we can in spending that money; but I cannot embark on a program in one year of fixing up all the fences.

Sir EUGENE FISET: I suppose it does happen that you take a survey of this orphan part of the railway, your Eastern division, and when you do, I wish you would also look at the stations, consider what they look like, as far as paint is concerned, and also the provision of platforms, in order to satisfy the local population; perhaps not only from the point of view of the exact needs of the

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railway, but basing your expenditures on the income that those small stations may bring in. I think they deserve some consideration.

Sir HENRY THORNTON: As a matter of fact, General, as far as my reputation as a railway officer is concerned, the Eastern lines do not enter into our accounts, and I could spend just as much money on those lines as I can get a government to approve, without any skin off my shin.

Sir EUGENE Fiset: I would be willing to help you in that.

Sir HENRY THORNTON: At the same time, I have got to exercise—and all our officers must exercise—reasonable prudence in the things which we suggest should be done. What is next, Mr. Chairman? The question is whether the Committee want to accept the explanation of the expenditures or not.

Sir EUGENE Fiset: I move the adoption of the report, sir.

Sir HENRY THORNTON: With respect to the expense items?

Hon. Mr. STEVENS: You cannot adopt the whole report. All you can adopt is the operating expenses which we have examined, and nothing more.

Hon. Mr. DUNNING: It is really not necessary to have such a motion at this stage, Sir Henry.

Sir HENRY THORNTON: No. You have merely examined one aspect of the Company's operations. If the Committee approves, I would suggest to the Chairman that we go on to something else. I would think that if we have got rid of expenses, perhaps the Committee would like to deal with revenue.

Hon. Mr. DUNNING: The income statement is on page 15.

Hon. Mr. STEVENS: Which book are you using now? The red book?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: We started with this (indicating).

Hon. Mr. DUNNING: That is an analysis of expenses.

Sir HENRY THORNTON: Shall we take the income statement on page 15 of the red report?

Hon. Mr. DUNNING: Operating revenue and expenses relative to the income statement.

Sir HENRY THORNTON: I would suggest that you turn to page 16 where you find detailed revenue. You have dealt with expenses, and now perhaps you would like to deal with revenue, and that will be found on page 16 of the red report.

The CHAIRMAN: The first is item 101.

Mr. HENRY: In 1927, the freight revenue was \$193,541,352.73.

Sir EUGENE Fiset: May I ask, Mr. Chairman, if the Eastern division is excluded from this?

Sir HENRY THORNTON: Yes.

Mr. HENRY: For six months.

Hon. Mr. DUNNING: There is a separate statement in the yellow book dealing with the Eastern lines.

The CHAIRMAN: Since the 1st of July, 1927, only.

Mr. JELLIFF: Can you deal approximately with the other?

Sir HENRY THORNTON: That will be developed. If you will let Mr. Henry run through with this, the question you have in your mind will be developed.

Mr. HENRY: The freight revenue for the year ending December 31st, 1926, was \$191,787,465.76, or an increase of \$1,753,886. In percentage of dollars, the increase is .91 per cent. Revenue tons carried 2.18 per cent. Revenue ton miles .85 per cent.

[Sir Henry Thornton.]

Hon. Mr. DUNNING: These are all increases?

Mr. HENRY: These are all increases. Products of agriculture, tons carried 12,108,350. There was a decrease there of 276,256 tons. Products of animals, 1,508,526, a decrease of 24,525 tons. Products of mines, 20,419,870, an increase of 187,840.

The CHAIRMAN: Just a minute, Mr. Henry. You have this other book. Those items Mr. Henry is reading out are embodied in this.

Sir HENRY THORNTON: No, it is all in the red book.

Mr. HENRY: Products of forests, 10,004,902 tons, an increase of 412,195 tons.

Mr. McLEAN: On what page is that?

The CHAIRMAN: Page 30.

Hon. Mr. DUNNING: The commodities are on page 30, and the item is 101 on page 16.

Mr. HENRY: Manufacturers, miscellaneous and L.C.L., 16,489,410 tons, an increase of 991,286. The total tonnage carried was 60,531,058, or an increase over the previous year of 1,290,540.

Hon. Mr. STEVENS: You have not the corresponding statement of the revenue in dollars, under these heads?

Mr. HENRY: Not by the various classes of commodities, no; we have not.

Hon. Mr. STEVENS: That is not available, I suppose.

Mr. HENRY: It is not available.

Hon. Mr. STEVENS: Could it be?

Mr. HENRY: It could be, but it would take a lot of work.

Hon. Mr. STEVENS: It is not in your system of accounting?

Mr. HENRY: No. Passenger, in 1927, \$36,080,488. In 1926, \$35,570,671, or an increase of \$509,817.

Hon. Mr. DUNNING: This is the first time we have had an increase in passenger revenue for some time, Sir Henry.

Sir HENRY THORNTON: Yes.

Mr. HENRY: That is an increase of 1.43 per cent. The passengers carried decreased 1,048,936 or 5.27 per cent. The passengers carried one mile increased 48,641,911, or 3.67 per cent. This indicates a continuation of loss of short haul traffic due to motor bus, and private auto competition, and a substantial increase in long distance travel.

Hon. Mr. DUNNING: Less passengers, but carried them farther.

Mr. HENRY: 103. Excess baggage; there was a decrease there of \$5,046. The reason for that is that apparently the commercial travellers are reducing the quantity of samples carried. Sleeping cars, 1927: the increase there is \$114,534. New services such as "The Confederation," the "Maple Leaf" and the "Acadian" were the cause of this. 105, Parlor and Chair cars. The increase is \$16,000. The same explanation is due, with respect to the trains "Confederation," "Maple Leaf" and "Acadian." Mail, the increase there is only \$5,535. Trains Nos. 11 and 12 Quebec to Cochrane increased from three to six trips weekly; heavier overflow traffic on Ocean Limited and Maritime express and Montreal-Toronto trains, and increased train service on western region. The Grand Trunk Western lines reported a decrease of \$44,000 due to reduced train service.

Hon. Mr. STEVENS: At that point, do you carry, through mails, trans-continental, and trans-oceanic? Have you a through service from the Pacific coast, say to Europe?

[Sir Henry Thornton.]

Sir HENRY THORNTON: What is the answer to that, Mr. Weldon?

Mr. WELDON: No, I would say not. The transcontinental mails are mainly carried by our competitor.

Mr. HENRY: Express. The increase is \$389,471. The increase is in fish traffic, Manitoba lakes, \$47,000; fish traffic Saskatchewan lakes, \$13,000. Interchange with Alberta Government Railways, \$43,000. Increase in the Rouyn mining district, \$45,000. Increase in general merchandise traffic, \$250,000. 108, other passenger trains; \$139,000 of an increase. The 1926 accounts included a debit adjustment with the Pullman Company of \$130,000, increasing the maximum average earnings per car before division from \$7,500 to \$9,000 for three years to June, 1925.

Hon. Mr. STEVENS: Just at that point, do I gather that you make a loss in the handling of the pullman cars?

Sir HENRY THORNTON: No, there was an adjustment of our accounts with the Pullman Company of \$130,000, and we increased their compensation, as did all the other railways. I am not sure that I quite get your point there, Mr. Stevens.

Hon. Mr. STEVENS: My point is this: I must simply gather what I hear. There was an adjustment with the Pullman Company, I presume on account of hauling the Pullman cars. There is a division I know in the ticket. Does the hauling of Pullman Company cars result in a loss to the National Railways?

Sir HENRY THORNTON: No. We are dealing now only with revenue.

Hon. Mr. STEVENS: Quite so, but I notice here there is a debit in 1926 of \$48,000.

Sir HENRY THORNTON: Perhaps Mr. Cooper will explain that.

Mr. COOPER: We have an agreement with the Pullman Company whereby the additional earnings there, \$7,500, were divided between the Pullman and the Canadian National. We made a new arrangement, whereby that \$7,500 was lifted to \$9,000.

Hon. Mr. STEVENS: That would be to the detriment of the Canadian National?

Mr. COOPER: The adjustment was to the detriment, yes. That does not say the result of the Pullman service was to the detriment of the Canadian National.

Hon. Mr. STEVENS: It is only idle curiosity on my part, but it strikes me that the Canadian National might consider whether the policy of continuing with the Pullman Company or installing its own sleepers is the best.

Sir HENRY THORNTON: Our policy in that respect was this, Mr. Stevens. We operate our own sleeping and parlor cars throughout routes which are within the boundaries of the Dominion of Canada. We operate Pullman service between points in Canada and points in the United States. That is mostly a heritage that has come to us from other lines, with respect to our services between New York and Montreal, and between Toronto and New York. Of course, we are practically obliged to use Pullman services because those cars pass over other railways than our own, and our mileage is relatively small. So that our policy really has come to this: that we operate our own sleeping cars and parlor cars within the Dominion of Canada, but where we are involved with other railways, and where the service passes beyond the boundaries of the Dominion of Canada, we employ the Pullman service, and our arrangements and contracts with the Pullman Company are the same as those which are approved by the American Railway Association, and the other railways on the North American continent.

[Sir Henry Thornton.]

Hon. Mr. STEVENS: They are all on a par.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: But they have increased—what shall I say—a maximum of \$9,000?

Sir HENRY THORNTON: That was due to a general adjustment that was made in the relations between the Pullman Company and the other railways on the North American Continent, through the American Railway Association. It was to compensate the Pullman Company for the additional cost they had been under; their wages had gone up, and other costs as well, just as they had gone up with us, and it was considered a reasonable thing to do.

Mr. JELLIFF: You are at No. 108.

Mr. HENRY: Other passenger trains.

Mr. JELLIFF: I do not get this yet. You have revenue in 1927 at so much, then for 1926 you have it in a different kind of type, which led me to think there was a loss in your presentation.

Mr. COOPER: In 1926 there was a debit balance.

Mr. JELLIFF: So that there was a gain in the addition of the two items?

Mr. COOPER: Yes. The gain was \$196,000; that is right.

Mr. HENRY: Account No. 109, Milk, increase \$3,888.33. That was new traffic from Eastern Townships and Island Pond to B. and M. points.

Account No. 110, Switching. The increase is \$62,609.67, due to a general increase in switching throughout the system except at Detroit, where we switched less coal ex D. and T.S. line.

Account No. 111, Special Service Train, a decrease in 1926 of \$12,602.26. This account covers revenue from circus trains, from newspaper and other special trains, and naturally varies from year to year.

Account No. 113, Water Transfers, Freight, an increase of \$8,040.88.

Hon. Mr. STEVENS: What is that small item?

Mr. HENRY: That is due to the Okanagan Boat Line Local Traffic. The service commenced in January, 1927.

Hon. Mr. STEVENS: Are you making any money on that traffic?

Sir HENRY THORNTON: I should think we probably were.

Hon. Mr. STEVENS: Is it off?

Sir HENRY THORNTON: Is what off?

Hon. Mr. STEVENS: The traffic now, the service?

Sir HENRY THORNTON: No, I do not think so.

Hon. Mr. STEVENS: You said you were.

Sir HENRY THORNTON: I meant to say we are. You asked me, are we making any money, and I said we are.

Hon. Mr. STEVENS: I thought you put it in the past tense.

Sir HENRY THORNTON: I did not mean to do so.

Mr. HENRY: Account No. 114, Water Transfers, Passenger, an increase of \$16,321.45. The Okanagan Boat Line Service, commenced January 1927, is responsible for \$4,701.90, and the additional two vessels, Grand Trunk Milwaukee Car Ferry Service across Lake Michigan is responsible for \$11,322.57.

Account No. 115, Water Transfers, Vehicles and Live Stock, an increase of \$15,361.14. There was an increase on the Prince Edward Island Ferry in the six months to June of \$724.64, and on the Grand Trunk Milwaukee Car Ferry, for autos on their own wheels, \$14,636.50.

Account No. 116, Water Transfers, Other, an increase of \$4,865.22. That was on the sale of berths on the Grand Trunk Milwaukee Car Ferry.

[Sir Henry Thornton.]

Account No. 131, Dining and Buffet, an increase of \$139,156.45. That was due to new services, such as the Confederation, the Maple Leaf and the Acadian trains, special things, such as the Mining Congress, and a general increase in long distance travel.

Account No. 132 is about the same; there is no explanation there.

Account No. 133, Station, Train and Boat Privileges, an increase of \$10,689.07.

	1927	1926	Increase
Canada Railway News Company.. ..	\$112,073 49	\$105,261 25	\$6,812 24
Parcel Lockers, Toilets, etc.	26,957 16	24,493 95	2,463 21
Insurance Commissions.. . . .	12,430 38	11,587 30	843 08

Account No. 134, Parcel Room, there is a decrease of \$10,418.19, due to the parcel room at Toronto being transferred to the Toronto Terminal Company.

Account No. 137, Demurrage, a decrease of \$58,641.56. The decrease is on Grand Trunk Western Lines, and is due to less congestion and delay at Pontiac and Detroit.

Account No. 139, Grain Elevator, a decrease of \$47,828.19, due to less grain handled through the Portland and Tiffin elevators, and less held in storage at Saint John in the first half of the year.

Account No. 141, Power, an increase of \$6,523.22, due to increased charges against the Armour Grain Elevator and others at Depot Harbour.

Account No. 142, Rents of Buildings, etc., an increase of \$18,378.07. In 1927 we obtained higher rentals for various miscellaneous properties owned by the Canadian National Railways.

Account No. 143, Miscellaneous, a decrease of \$3,961.96.

Hon. Mr. STEVENS: What is included in that item? There are some rather large items.

Mr. HENRY: The International Bridge Tolls, the Victoria Jubilee Bridge Tolls, the Port Arthur Coal Dock, the Boarding Car Department, Wharfage at Halifax, Portland, etc., Labour and Handling, Cleaning and Disinfecting Cars, Heating Cars, Sale of Cinders, Paper, Water, Old Wood, etc., Detouring Trains for other Companies.

Account No. 151, Joint Facility, Credit, an increase of \$94,460.69. This increase is due to changed conditions at the Toronto Union Station. This account now receives credit with our Wheelage proportion of gross receipts from restaurant, lunch counter and parcel room. Previous to August 11, 1927, the net profit was credited to Account 133, and C.P.R. proportion recharged through Account 152.

Account 152, Joint Facility, debit, \$30,534.62.

Mr. CHAPLIN: Is the C.N.R. a stockholder in the Old Suspension Bridge at Niagara?

Mr. HENRY: I do not think so.

The CHAIRMAN: No.

Mr. CHAPLIN: It is not a shareholder at all?

Sir HENRY THORNTON: No.

Mr. HENRY: Account 152. The Toronto Union Station, as explained above, is responsible for \$8,832.59, and certain traffic formerly considered joint with the Wabash and accounted for through this account, now considered competitive, and accounted for directly through appropriate revenue primary account, \$21,000 of a decrease.

--Sir HENRY THORNTON: That represents all the items of revenue. We have now dealt with the revenues and the expenditures. We can take up the estimates now, Mr. Dunning?

[Sir Henry Thornton.]

Hon. Mr. DUNNING: Unless there is something in connection with the accounts, unless they want to go over some revenues on the Eastern Lines.

Sir HENRY THORNTON: We have still the revenues on Eastern Lines. Does the Committee wish to go over those?

Hon. Mr. DUNNING: They are on page 3?

Sir HENRY THORNTON: On the yellow sheets. Revenue on Eastern Lines. Go ahead, Mr. Henry.

Mr. HENRY: Account 101, Freight. There was a decrease of \$582,510. There was a decrease of \$931,809 as the result of the 20 per cent rate reduction under the Maritime Freight Rates Act. Had such reduction not been put into effect, there would have been an increase of \$349,299. The difference between these two is \$582,510.

Account 102, Passenger, a decrease of \$32,968. There was an increase of \$3,730 in Passengers Carried, but a decrease of \$3,105,856 in Passengers Carried One Mile, or 2.8 per cent. That is the reason for the decrease.

Account 104, Sleeping Cars, a decrease of \$19,698. This is chiefly due to the new train "Acadian", which was put on from July 1st to September 26th.

Account 107, Express. There was a decrease of \$124,187. In 1926 the Eastern Lines received 14.35 per cent of the System Express Revenue. This was an arbitrary apportionment. Since July 1st, 1927, they have received 100 per cent of the local, and mileage pro rate of through traffic, approximately 12.38 per cent. This has reduced Eastern Lines Express Revenues by \$140,000, and correspondingly increased Canadian National. Against this decrease we have an increase of \$16,000 in General Traffic.

Account 114, Water Transfers, Passengers, an increase of \$7,101. This revenue represents fares of local passengers handled on the Prince Edward Island Ferry. In 1926 this revenue was not separated from passenger revenues, and was included in Account 102.

Account 115, Water Transfer, Vehicles and Livestock, an increase of \$4,617. Increased revenue from Transportation of Automobiles on the Prince Edward Island Ferry, occasioned by more tourist traffic.

Account 131, Dining and Buffet, an increase of \$6,902. That is due to the train "Acadian".

Account 137, Demurrage, an increase of \$13,746. In August, 1926, this account is charged with \$10,000 cancelling demurrage assessed at Pictou, N.S., due to failure of railway to more promptly release cars. There was no corresponding charge in 1927.

Mr. HENRY: The next is No. 139, Grain Elevator. This shows an increase of \$5,864; increased revenue at the St. John elevator.

Sir HENRY THORNTON: That covers an item of revenue for the Eastern Lines.

Hon. Mr. STEVENS: Sir Henry, is the revenue from the Central Vermont, and other lines, included?

Sir HENRY THORNTON: You have everything but the Central Vermont. The Central Vermont is under receivership, and has not been included.

Hon. Mr. STEVENS: Are we going to have that?

Sir HENRY THORNTON: We can get it, yes.

Hon. Mr. STEVENS: Why not round off this income, or this revenue matter at this point, and put in the Central Vermont figures?

Hon. Mr. DUNNING: Is the Grand Trunk Western included in this?

Sir HENRY THORNTON: Oh, yes. There is just the Central Vermont omitted, and that is in the hands of the receivers. That is the reason we did not bring these figures forward this year.

[Sir Henry Thornton.]

Hon. Mr. STEVENS: What is the objection?

Sir HENRY THORNTON: We can get them, but there is nothing we can do with them.

Hon. Mr. STEVENS: I think we ought to have them. It is a matter of rounding off the whole system.

Sir HENRY THORNTON: We can get those figures.

Hon. Mr. DUNNING: You have not them with you this morning?

Sir HENRY THORNTON: No.

Mr. McLEAN (Melfort): Is that due to the fact that you are not operating the road yourselves?

Sir HENRY THORNTON: The road is in the hands of the receivers. It is out of our hands, technically.

Mr. JELLIFF: Could you give us the approximate figure?

Sir HENRY THORNTON: We can give you all that to-morrow.

Hon. Mr. DUNNING: It does not make any difference to the general accounts, under the present situation.

Hon. Mr. STEVENS: I do not see why there should not be a frank statement about it.

Sir HENRY THORNTON: There is no reason at all. I only left them out because I did not think you would want to be bothered with them, as there is nothing we can do about them.

Hon. Mr. STEVENS: I do not suppose we can do much with any of these, but we could have the pleasure of looking them over.

Sir HENRY THORNTON: We will give you that pleasure to-morrow.

Hon. Mr. STEVENS: I would like to take this opportunity of complimenting your staff on the splendid manner in which they have got these accounts together.

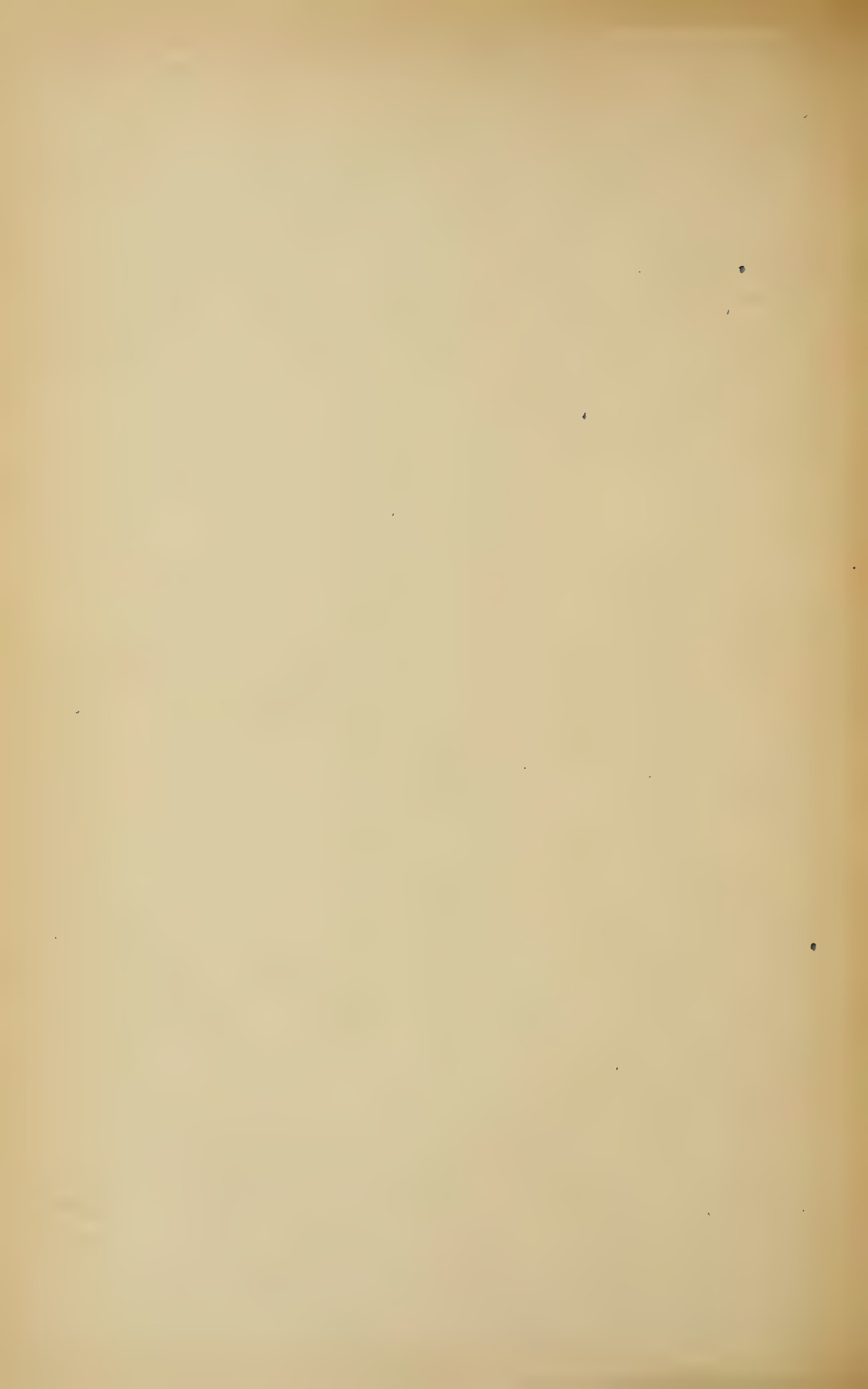
Sir HENRY THORNTON: We are getting experience. I will be delighted to have you look at these figures to-morrow morning. I would like to ask you if I could be excused to-morrow morning. Mr. Henry, and the Vice-Presidents will be here to answer such questions as you may want to put to-morrow. We have a dinner of our employees' club at Toronto to-morrow night. It is a gathering of all of our staff of employees, and sometime ago, before I could tell what the meetings of this Committee would be, I promised to go to that dinner. I would like very much to go, not that it is essential one way or the other, but it tends to encourage the esprit de corps of the organization. So, with your permission, I would like to be excused to-morrow in order to attend that convention at Toronto, but I will be back here Thursday morning.

Hon. Mr. DUNNING: I understand the Immigration Committee have called you for Thursday morning.

Sir HENRY THORNTON: Yes, but I do not imagine that will take very long.

Witnesses retired.

The Committee adjourned until Wednesday, April 18th, at 11.00 a.m.



SESSION 1928
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3—APRIL 18, 1928

WITNESS:

Mr. R. A. C. Henry, Director, Bureau of Economics, Canadian National
Railways.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

MINUTES OF PROCEEDINGS

ROOM 424, HOUSE OF COMMONS,

WEDNESDAY, April 18, 1928.

The Select Standing Committee on Railways and Shipping, owned, controlled and operated by the Government, was called to order at 11 o'clock, a.m., Mr. Goodison, the Chairman, presiding.

Members present:—Messieurs Cantley, Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne and Stevens (Hon. H. H.)—12.

In the absence of Sir Henry Thornton, Mr. R. A. C. Henry, Director, Bureau of Economics, acted as chief witness. Mr. S. J. Hungerford, Vice-President, Mr. T. H. Cooper, General Auditor, and other members of the official staff of the Canadian National Railways, were in attendance to assist in giving answers to questions by members of the Committee; also representatives from the Department of Railways.

On opening the meeting, the Chairman stated that Mr. Neill, M.P., who was then present, had requested permission to address a few words to the Committee. Permission granted.

Mr. Neill's remarks were in reference to a desired guaranteed coal rate shipped from Vancouver Island in the Government Merchant Marine ships by way of the Panama Canal to Montreal, on a somewhat similar basis as the proposed rate from Alberta to the Eastern Provinces, as announced some weeks ago in the House.

After considerable discussion, Mr. Neill was assured that the matter was under investigation and would be fully considered.

Central Vermont Railway matters were again taken under consideration with regard to revenue and expenses.

Mr. Henry submitted a statement for the year ending December 31, 1927, as compared with 1926, Income Account.

General discussion on this matter. Many questions were asked by Mr. Harris, and answered by Mr. Henry and other officials of the railway.

Page 34 of the Annual Report of the Canadian National Railway System, which shows the investments in the Central Vermont Railway, was by request of Mr. Stevens ordered to be incorporated in the record.

Further discussion on Central Vermont Railway matters.

Resumed consideration of the Annual Report at page 21, under the heading of "Expenditures, less Retirements, during the year 1927, Applicable to Investment in Road and equipment."

Road: Items under this heading, from 1 to 23 were taken up separately and considered.

The Chairman announced that it was one o'clock. The question of the next meeting was taken up and it was decided that the Committee would meet again to-morrow, Thursday, at 11 a.m.

The Committee adjourned.

MINUTES OF EVIDENCE

COMMITTEE ROOM 425,

HOUSE OF COMMONS,

WEDNESDAY, April 18, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: We will come to order, please. Mr. Neill has requested permission to speak a few words, and we will hear him now.

Mr. NEILL: Mr. Chairman, I will only detain the Committee a very few minutes, but I want to bring a small matter before them. The members of the House will remember that a few weeks ago when the Minister of the Interior announced the policy of the government by way of guaranteeing a coal rate from Alberta to the eastern provinces, I put a question on the order paper asking if, in view of that fact, the government would be prepared to give an equal guaranteed rate on coal shipped from the Vancouver Island coal mines in the Government Merchant Marine ships by way of the Panama Canal to Montreal. The Minister of the Interior, perhaps for want of a better answer, made the rather unusual statement that they had not been asked for such a rate. Of course, it is against common sense to think that the handicapped coal industry of British Columbia would not have their hands out for the same concession given to Alberta, because British Columbia is in even a worse position. However, I want the Committee to note the very much implied promise given on that occasion that the rate had not been asked for and therefore had not been given, the inference being that if we asked for it, we would be in line, the only reason given being that we did not ask for it. I now submit the formal request. I have a letter here from the biggest colliery on Vancouver Island, and I will quote a couple of sentences:—

I note that in the House of Commons on the 28th of March, you brought up the question of preferential ocean rates being given to coal mines on Vancouver Island, for shipments of coal to Montreal. I think there is quite a possibility of business developing on the lines of your suggestion. You might take the matter up with the Canadian Government Merchant Marine, in order that I may have some rate to work upon. If a satisfactory rate can be obtained for our Comox coal, which is an excellent furnace coal, I will immediately get in touch with the Distributing Agencies in Montreal, and see if we can arrange to market our coal in that city. Of course, it would be necessary to make all shipments of coal during the summer months, and it is quite possible that this would suit the Canadian Government Merchant Marine.

That is all the quotation. If we can get a rate like that I believe it will greatly benefit us and benefit the coal consumers in Montreal.

I might mention that it would be a less costly rate to the government because the limit is closer. I believe the government will be heavily drawn upon in Alberta if the rate is to be a success. In our case it would require only a comparatively small guarantee to make it a success. It would be in fact quantity shipments; it would be shipped by the shipload, whereas the ships out there now are sometimes running with half freight. This would be a

guaranteed source of freight, which could be counted upon, and not in a small way. They could load the entire ship out there in a very few hours with the special bunkering arrangements they have for that purpose.

I would like to leave this idea with the Committee and the officials of the company which runs these ships, and ask if a rate cannot be worked out which would be somewhere in line with the guarantee given to the Alberta people. This, I believe, would be a constant source of revenue to the company and a guarantee to our Vancouver Island coal mines.

Hon. Mr. DUNNING: Mr. Henry, what have you to say, aside from the question of guarantee, as to the Merchant Marine taking that class of business? Of course, any arrangement at all similar in character to the arrangement with Alberta is a matter of government policy, but what have you to say as to whether the Merchant Marine can give any information as to the practicability of such a trade?

Mr. HENRY: With regard to that: our Merchant Marine have looked into it to a certain extent and a little memorandum has been prepared. Really, we have not any boats which are available for that service at the moment. Boats which are now in the coastwise service are fully employed on other things.

Mr. NEILL: Is there not now a service from Vancouver to Montreal?

Mr. HENRY: There is, but the boats in that service are fully occupied with cargoes of lumber east-bound.

Mr. NEILL: All loaded to capacity?

Mr. HENRY: All loaded to capacity.

Hon. Mr. DUNNING: Are these boats suitable for carrying coal, Mr. Henry? What type are they?

Mr. TEAKLE: Because of their 'tween decks they are not properly fitted as coal carriers.

Hon. Mr. DUNNING: Have you any boats at all suitable for that?

Mr. TEAKLE: We have two 4,400-tons boats without 'tween decks which we could use, but we consider these boats would be so expensive to operate that the coal industry could not stand it.

Mr. NEILL: Why would a 4,400-ton boat be expensive to operate? Is it of too small a capacity?

Mr. TEAKLE: That is the answer.

Mr. NEILL: Can anyone tell me what size of boat is properly fitted for carrying coal?

Mr. TEAKLE: Ours are now operated in the general cargo trade. All of our ships but these two are fitted with 'tween decks for the proper handling of general cargo, and it is that general cargo trade they are now operating. Both of these small boats, of 4,400 tons, were used last year exclusively for carrying coal between the mainland, Sydney and Newfoundland. They are not fitted with 'tween decks.

Mr. NEILL: Are they available?

Mr. TEAKLE: They are available, but I think because of their small size and the length of time necessary to make the voyage from Vancouver and back again, the expense would be so great as to make it impossible for the coal industry to stand it.

Hon. Mr. DUNNING: You will have the matter looked into further, Mr. Henry?

Mr. HENRY: Yes, it is under investigation now.

Mr. NEILL: Thank you.

Hon. Mr. DUNNING: Mr. Chairman, when we adjourned yesterday it was understood that we would come back to-day with the revenue and expenses of the Central Vermont, in which Mr. Stevens was interested.

Mr. HENRY: We have here a statement of the income account of the Central Vermont Railway for the year ending December 31st, 1927, as compared with 1926. As was explained yesterday the floods which occurred in November of last year necessitated the Central Vermont being placed in the hands of a receiver.

Hon. Mr. DUNNING: This was for the period when it was under operation by the Canadian National Railways?

Mr. HENRY: Yes; well, really up to December 12th.

Hon. Mr. DUNNING: Mr. Henry, this statement does not make it clear that it is only for a ten months' period.

Mr. HENRY: It is for a twelve months' period, Mr. Dunning.

Hon. Mr. DUNNING: For part of that time it was in the hands of a receiver.

Mr. HENRY: Only from the 12th of December. The flood occurred in November, but the operations were carried on by the Central Vermont until the 12th of December.

Hon. Mr. DUNNING: I think if you summarize the situation, that will be sufficient.

Mr. HENRY: The operating revenue for 1927 was \$8,504,642.16 as compared with \$9,382,484.74. Actually those revenues are only for ten months because of the floods which necessitated the diversion of through traffic.

The operating expenses in 1927 were \$7,858,175.39 as against \$7,640,647.65 the previous year. The tax accruals were \$235,798.78, as against \$225,675.45, leaving a railway operating income in 1927 of \$409,646.41 as against \$1,514,756.97. Had the flood not occurred, we were confident that the operations this year would have been an improvement over the previous year.

The CHAIRMAN: Does anybody wish to ask any further questions with regard to this?

Hon. Mr. STEVENS: I do not wish to ask any questions which will embarrass the railway in its present position, and I do not think this one will. What is the estimate of what it will cost to put this railway back into normal operation.

Mr. HENRY: Approximately \$3,500,000.

Hon. Mr. STEVENS: That includes replacement and new construction?

Mr. HENRY: The operation may result in a little deficit in addition to that. This is reconstruction.

Hon. Mr. STEVENS: That is to be expected under the circumstances.

Hon. Mr. DUNNING: That sum is provided for by receiver's certificates under the receivership.

Hon. Mr. STEVENS: I understand that. When is it expected to get the road into operation again?

Mr. HENRY: Through service has been inaugurated but not to the extent we would wish. Probably in a month or two—about the 1st of June.

Hon. Mr. STEVENS: These operations are not included?

Mr. HENRY: No.

Hon. Mr. STEVENS: Nor are the operations for the eastern lines in the last half of last year?

Hon. Mr. DUNNING: No.

Hon. Mr. STEVENS: But the first half of last year of the eastern lines is included in the main statement?

Hon. Mr. DUNNING: Yes. From now on under the provisions of the Maritime Freight Rates Act, the law arranges that the system shall not lose money as a system east of Levis. The operations of the Maritime Freight Rate Act means that, so that while the eastern lines are outside the system, the country takes care of that deficit so that there is no concealed deficit, so far as the system is concerned, but the separate statement which we went over yesterday is brought down in order to show clearly how that law is working in its business effect.

Hon. Mr. STEVENS: That was kept entirely separate from the main accounting system of the company?

Hon. Mr. DUNNING: Yes, and it will be in the future. It could not be prior to the 1st of July last, when the Maritime Rights Act only came into effect on that date. There has been a little confiction in the accounting in making the comparisons, because of the six months' break, but in the future it will be quite clear-cut that the system as a system will come up to Levis on an even basis, the State making up the deficits east of that point.

Hon. Mr. STEVENS: In the past, has the Central Vermont been included in that main statement?

Mr. HENRY: Only last year.

Hon. Mr. DUNNING: It was brought into the income account?

Hon. Mr. STEVENS: 1927 is entirely outside of the main statement?

Hon. Mr. DUNNING: Entirely out of the picture.

Mr. McLEAN (Melfort): I notice this road did not quite carry itself last year. Is it expected that it will in the future, when it is renovated and rebuilt?

Hon. Mr. DUNNING: There is one point in connection with the Central Vermont which I know Sir Henry (Thornton) would urge if he were here. As some members of the Committee will remember, I had some doubt personally whether from a business point of view it was worth while keeping the Central Vermont. I must say that Sir Henry (Thornton) has convinced me that the value of that road to the system as a whole is unquestionable. The earnings, by themselves, in no way reflect the value of it to the system, because traffic originating on our Grand Trunk Western Lines and destined to the American seaboard passed through Canada, giving revenue to our lines in Canada, and our outlet to the seaboard to which the freight was consigned by the owners, is over this line, so there is an invisible contribution to the Canadian system which it would be very hard to measure in dollars and cents.

Hon. Mr. STEVENS: There are no Dominion government advances to this road?

Hon. Mr. DUNNING: No. There is this about it: of course, in so far as the Canadian National makes advances—

Hon. Mr. STEVENS: I see an item here "Interest on Dominion government advances".

Hon. Mr. DUNNING: This is a formal statement used in connection with the road generally.

Hon. Mr. STEVENS: It shows no interest in that.

Hon. Mr. DUNNING: No, there is none.

Sir EUGENE Fiset: But when this road is out of the receivership will it be part and parcel of the Canadian National?

Hon. Mr. DUNNING: It is bound to be a separately operated company. It is wholly in the United States.

Sir EUGENE Fiset: Will it be included in the future statements of the Canadian National?

Mr. HENRY: That will depend upon the reorganization, General.

Hon. Mr. DUNNING: I think we could say it would be accounted in the general statement in one of two ways, either its operating results in growth, or the deficit or surplus, as the case may be, included, as it was last year, as part of the system generally. Mr. Hungerford tells me that the hope is to work out of the receivership in such a way as to make the relationship precisely the same as the Grand Trunk Western, which is presently included in the accounts.

Mr. Chairman, if there is nothing further on the Central Vermont, I think I should say for the Railways that we appreciate very much the manner in which the authorities of the State of Vermont have met us in connection with the operation of the line. I think the officers of the Company would desire this to be made known.

Mr. HARRIS: Before we leave this, have we a statement of the assets and liabilities of this road, in this statement?

Mr. HENRY: To December 31st, 1927, no. We have it for 1926. The road is in the hands of a receiver.

Mr. HARRIS: Who owns the railroad now?

Mr. HENRY: The Court.

Hon. Mr. DUNNING: The Court of Vermont. We are, of course, the principal creditor.

Mr. HARRIS: We stand in the position of being the principal creditor?

Hon. Mr. DUNNING: Yes.

Mr. HARRIS: The matter is in the hands of the Court now, and it is a question for the Court?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: Under the law of the State of Vermont.

Mr. HARRIS: What is the Court?

Hon. Mr. DUNNING: It is a Federal Court we are using for the purpose.

Mr. HARRIS: That is what I wanted to get at.

The CHAIRMAN: Sir Henry (Thornton) stated when here that it was the expectation that it would be settled before long, and that the C.N.R. would be to all intents and purposes the owner, when they got through the receivership. The State officials are very, very favourable to the Canadian National Railways.

Mr. HARRIS: I understand it is a Federal Court.

Hon. Mr. DUNNING: With regard to the receivership, it is a Federal Court, but, with regard to the relationship of the Railway, it is a State matter. It is a State corporation.

Mr. HARRIS: Then the whole matter is in the hands of the State of Vermont?

Hon. Mr. DUNNING: No, the Federal Court, but the State of Vermont could make a great deal of difficulty in connection with the reorganization, if the State authorities were not favourable to Canadian National ownership and operation of their line. It is a State charter, in the first place, but the actual receivership is being carried on under a Federal Court, not under a State Court. There was a minority interest, you will remember, when we received it in previous years, a minority stock interest.

Mr. HARRIS: A State interest?

Mr. HENRY: No, a private interest.

Mr. HARRIS: As I understand it now, the real ownership of the railroad is vested in the Federal Court?

Hon. Mr. DUNNING: Until the receivership is over.

Mr. HARRIS: How long do you think it will be before the Canadian National, as principal creditor, will get back into the position of ownership?

Mr. HENRY: That is a matter of adjustment with the Court; I could not say. It might be three months, or it might be six months.

Mr. HARRIS: Is it the view of the C.N.R. that it would be real good business to get back into ownership, and take their loss?

Mr. HENRY: Yes.

Mr. HARRIS: What will be the probable loss?

Mr. HENRY: That cannot be ascertained until the receivership is discharged, Mr. Harris. It will depend upon the reorganization which results.

Mr. HARRIS: The road has been in operation a long time; have you any way of ascertaining the real value of the ownership?

Mr. HENRY: The only thing I can say in that regard is what the Interstate Commerce Commission have placed on it from the standpoint of the cost of reproduction. I think it is in the vicinity of \$22,000,000.

Hon. Mr. DUNNING: That is, the Interstate Commerce Commission?

Mr. HENRY: That is the Interstate Commerce Commission's valuation. The investment in road and equipment is a little bit higher than that, \$23,000,000. I think.

Mr. HARRIS: It will be a good deal higher by the time it is rehabilitated.

Mr. HENRY: That is a question of whether this rehabilitation is an operating charge or not.

Mr. HARRIS: Of course you have no statement of assets and liabilities?

Mr. HENRY: Not up to the 31st of December, 1927, but for 1926 I can give it to you.

Mr. HARRIS: Have you sinking funds to take care of depreciation and so forth?

Mr. HENRY: They had for a certain amount of depreciation.

Mr. HARRIS: What proportion?

Mr. HENRY: The accrued depreciation as of December 31, 1926, was approximately \$1,000,000.

Mr. HARRIS: That was not very much?

Mr. HENRY: That was largely a depreciation reserve set up on account of Equipment.

Mr. HARRIS: It would not be on fixed assets at all?

Mr. HENRY: There is only \$200,000 odd for roadway accounts.

Mr. HARRIS: What would the policy of the C.N.R. be with regard to replacements; would they all be listed in their balance sheets as assets, or would any proportion go in as replacements?

Mr. HENRY: Well, in that regard, so far as the Central Vermont is concerned, we are obligated to keep our accounts in a certain way. I suppose it is the Interstate Commerce Commission regulations that would govern.

Mr. HARRIS: They would govern in the operations in Canada?

Mr. HENRY: No. Well, we have a similar system of accounts; generally speaking they follow the same line.

Mr. HARRIS: In the final analysis, these betterments will go into capital account?

Mr. HENRY: In so far as we are able to convince the Interstate Commerce Commission that they are capital accounts.

Mr. HARRIS: Who decides that?

Mr. HENRY: That is the Accounting Officer of the Central Vermont Railway, or whatever it is called when it comes out of the receivership.

Mr. HARRIS: Would you care to express an opinion as to the efficiency with which the C.N.R. so far has been able to convince the Interstate Commerce Commission and also the like body here in Canada that certain renewals, replacements and betterments should go into Capital Account?

Mr. HENRY: In the United States, the Interstate Commerce Commission is fairly rigid; they review them, they send their Inspectors around to review the Divisions. They have to do that because of the provisions of the Transportation Act. But in Canada there is no such body, and therefore it is largely a question of an interpretation of the general rules underlying the accounting system.

Mr. HARRIS: Have you any view of that interpretation by the Dominion Government at all?

Mr. HENRY: The Dominion Bureau of Statistics have a classification of accounts which corresponds in the main with those issued by the Interstate Commerce Commission.

Mr. HARRIS: They have no authority to see that their classification is carried out?

Mr. COOPER: It is governed by the Railway Commission. They have issued road and equipment specifications, which we have to adopt and carry out.

Mr. HENRY: But Mr. Harris means the policing of it afterwards.

Mr. COOPER: We return to them. They do not go around and check it over.

Hon. Mr. DUNNING: But your Auditors, I presume, check you up, as against the regulations?

Mr. COOPER: These are regulations to specify the expenditures correctly, and in addition our accounts are certified by outside auditors, chartered accountants.

Sir EUGENE Fiset: There is no departmental audit, as far as the Department of Railways is concerned?

Hon. Mr. DUNNING: No. There is an independent audit, and the certificate is here. Of course the Bureau of Statistics has the same right to enforce their standards.

Hon. Mr. STEVENS: Would there be any objection, Mr. Chairman, to having the investments in the Central Vermont as set forth in this statement at page 34, put into the record at this point? They are here, and are public.

Hon. Mr. DUNNING: Not at all.

Hon. Mr. STEVENS: That is not any embarrassment, is it?

Hon. Mr. DUNNING: Not at all.

(Statement follows):

A/C 706—INVESTMENTS IN AFFILIATED COMPANIES

Company	Amount outstanding	Amount own- ed by Can. Nat. System	Book value
	\$ cts.	\$ cts.	\$ cts.
"A"—STOCKS—			
Atlantic and St. Lawrence Rail Road Company.....	5,484,000 00	224 33	
The Belt Railway Company of Chicago.....	3,120,000 00	240,000 00	
Central Vermont Railway Company.....	3,000,000 00	2,191,100 00	
Chicago & Western Indiana Railroad Company.....	5,000,000 00	1,000,000 00	
The Detroit and Toledo Shore Line Railroad Company.....	1,428,000 00	714,000 00	
The Ontario Car Ferry Company (Limited).....	500,000 00	250,000 00	
The Toronto Terminals Railway Company.....	50,000 00	25,000 00	
The Toledo Terminal Railroad Company.....	4,000,000 00	387,200 00	
Detroit Terminal Railroad Company.....	2,000,000 00	1,000,000 00	
Canadian Government Merchant Marine, Limited.....	460,900 00	900 00	
	25,042,900 00	5,808,424 33	1,516,785 91
"B"—BONDS—			
Atlantic and St. Lawrence Rail Road Company.....	3,000,000 00	3,000,000 00	
Central Vermont Railway Company 5% Gold Bonds...	12,838,300 00	4,229,300 00	
Chicago & Western Indiana Railroad Consolidated Bonds	49,298,666 67	2,187,000 00	
The Detroit and Toledo Shore Line R.R. Co. First Mortgage Bonds.....	3,000,000 00	587,000 00	
The Muskegon Railway & Navigation Co. First Mort- gage Gold Bonds.....	571,200 00	55,300 00	
The Toledo Terminal Railroad Company.....	5,241,000 00	137,000 00	
The Toronto Terminals Railway Co. 5% First Mortgage Bonds.....	12,582,100 00	6,291,100 00	
	86,531,266 67	16,486,700 00	16,456,591 80
"C"—NOTES—			
Central Vermont Railway Company.....			8,041,905 52
"D"—ADVANCES—			
Canadian Government Merchant Marine, Limited.....			565,760 57
Central Vermont Railway Company.....			12,850,343 15
Chicago & Western Indiana Railroad Company.....			638,114 66
The Muskegon Railway and Navigation Company.....			44,054 78
			14,098,303 16
Total Balance Sheet A/c No. 706.....			40,113,586 39

Hon. Mr. STEVENS: It might be well to complete the record with regard to the Central Vermont. I want to ask a question, which Mr. Henry can answer and clear up. On page 34 of the Canadian National Railways Report for 1927, the heading is "Investments in Affiliated Companies: (a) Stocks." Then there is an item, Central Vermont Railway Company, amount outstanding \$3,000,000, amount owned by the C.N.R. System \$2,191,000. Now, do I understand that that is ordinary stock of the Railway?

Mr. HENRY: That is the control which the C.N.R. exercised over the Central Vermont prior to the receivership.

Hon. Mr. STEVENS: That is the ownership of stock?

Mr. HENRY: That is the stock ownership.

Hon. Mr. STEVENS: Next we have under bonds, Central Vermont Railway 5 Per Cent Gold Bonds, amount outstanding \$12,838,000; owned by the C.N.R. \$4,229,300?

Mr. HENRY: That is correct.

Hon. Mr. STEVENS: Might I ask this; there is \$12,000,000 outstanding. Do I understand that the \$4,229,000 is held in the treasury of the C.N.R. as an asset?

Mr. HENRY: That is right.

Hon. Mr. STEVENS: Farther down, under (c) we have an item, Notes, Central Vermont Railway, \$8,041,905. Does that mean advances to the Central Vermont Railway?

Mr. HENRY: That means advances to the Central Vermont Railway, for which notes were received.

Hon. Mr. STEVENS: Secured by notes of the Central Vermont?

Mr. HENRY: Yes.

Hon. Mr. STEVENS: And held in the treasury of the Canadian National?

Mr. HENRY: Held in the treasury of the C.N.R.

Hon. Mr. STEVENS: Let me go a step farther.

Mr. HENRY: Under (c) I think that relates to the Southern New England, does it not, Mr. Cooper?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: I did not get that.

Mr. HENRY: That relates to advances on the Southern New England and in turn advances to the Central Vermont.

Hon. Mr. STEVENS: But it is all in the receivership?

Mr. HENRY: Yes.

Hon. Mr. STEVENS: Then under (d) we have, Advances to Central Vermont Railway Company \$12,850,343.

Mr. HENRY: Those are advances made by the C.N.R. and the old Grand Trunk Railway from time to time to the Central Vermont proper, for other purposes than the Southern New England.

Hon. Mr. STEVENS: Let me ask this; does the \$12,850,000 and the \$8,000,000, making \$20,850,000, represent loans or advances to the Central Vermont Railway?

Mr. HENRY: That is correct.

Hon. Mr. DUNNING: Much of that, Mr. Stevens, occurred before the Canadian National came in.

Hon. Mr. STEVENS: I am not asking this in a spirit of criticism; I only desire to get the facts.

Hon. Mr. DUNNING: I just want to get the picture clearly before the Committee. This goes back to the days of the old Grand Trunk, before the days of the Canadian National.

Hon. Mr. STEVENS: Then there are the Central Vermont bonds. Those bonds represent advances as well?

Mr. HENRY: Well, they were bonds which the old Grand Trunk had acquired, and exchanged for advances for betterments and so on.

Hon. Mr. STEVENS: Roughly, the investment would be \$25,000,000?

Mr. HENRY: Yes, \$26,000,000; it is nearly \$27,000,000, a little over \$27,000,000, with the stock.

Mr. COOPER: That is, taking all the stock.

Hon. Mr. STEVENS: I left the stock out.

Hon. Mr. DUNNING: I am willing to put it in.

Hon. Mr. STEVENS: There is \$25,000,000, represented in bonds, notes and advances?

Mr. HENRY: That is right.

Hon. Mr. STEVENS: And \$2,191,000 of stock?

Mr. HENRY: That is correct.

Hon. Mr. STEVENS: That represents the total investment in the Central Vermont.

Mr. HENRY: Yes.

Mr. JENKINS: Are those 5 Per cent Gold Bonds in the hands of the stockholders?

Mr. HENRY: The balance.

Mr. JENKINS: These people would only realize a fraction?

Mr. HENRY: Well, they are guaranteed by the Grand Trunk Railway Company of Canada.

Mr. JENKINS: Those bonds would bear 5 per cent?

Mr. HENRY: They would bear 5 per cent.

Mr. JENKINS: And they will continue to do so?

Mr. HENRY: It depends upon the outcome of the receivership.

Mr. JENKINS: Is the whole \$12,800,000 guaranteed?

Mr. HENRY: Oh, yes.

Hon. Mr. STEVENS: That involves the contingent liability of an additional \$8,000,000?

Mr. HENRY: They are being taken up, as a matter of fact.

Hon. Mr. STEVENS: That would mean \$33,000,000?

Mr. HENRY: That would mean \$33,000,000, yes.

Hon. Mr. STEVENS: And \$2,000,000 worth of stock?

Mr. COOPER: The \$2,000,000 of stock does not represent a cash investment.

Hon. Mr. STEVENS: That is the reason I did not include them in the summary I was making.

Mr. JELLIFF: Are the notes and advances secured in any way?

Mr. HENRY: They are secured merely by notes of the Central Vermont; there is no collateral, other than the Central Vermont notes.

Hon. Mr. DUNNING: It strengthens our position before the court.

Mr. McLEAN (Melfort): What is the total estimated value of the road now, \$22,000,000, did you say?

Mr. HENRY: I said that the investment in road and equipment was \$23,000,000.

Mr. McLEAN (Melfort): Some of that would be dissipated by the flood, I suppose?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: That is an important point, Mr. Stevens. I was just trying to get it straightened out, before I put the question, but perhaps I can get it straighter by putting the question. Mr. Henry, the Central Vermont system was improving year by year in its financial showing?

Mr. HENRY: There is no question of that.

Hon. Mr. DUNNING: I remember that Sir Henry indicated that there was a likelihood of the Central Vermont carrying itself during last year, 1927. Will you explain to the Committee just what was meant by that?

Mr. HENRY: That means that it would have paid the interest charges, and all advances made by the Canadian National Railway, except that \$8,000,000 made on behalf of the Southern New England. The arrangement there, made by the old Grand Trunk, was that that should not pay interest until the Southern New England was in operation and earning interest.

Mr. DUFF: Did the C.N.R. pay cash for that \$4,429,000 of bonds, or were they additional assets taken over when you acquired the Grand Trunk?

Mr. HENRY: There were certain four per cent securities in the hands of the old Grand Trunk, totalling about the same amount, and they were offered

for exchange in 1920. They represented advances which the Grand Trunk had made from time to time, for betterments to physical property rather than anything else.

Mr. DUFF: I am trying to find out if it is actually cash advanced by the C.N.R., or if it was part of the assets taken over from the Grand Trunk?

Mr. HENRY: It was part of the assets taken over.

Mr. DUFF: It is not cash advances?

Mr. HENRY: \$4,000,000 is not cash advanced, but represents first mortgage bonds held in the Treasury, for which the old Grand Trunk paid cash.

Mr. DUFF: When you bought the Grand Trunk did you have to pay \$4,000,000 for those bonds?

Mr. HENRY: They were simply in the general assets.

Mr. DUFF: You did not pay cash for them?

Mr. HENRY: The Government acquired the stock of the Grand Trunk, and inherited all the assets and liabilities.

Mr. JELLIFF: It showed your interest in the road, anyway?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: There is no doubt that the condition of the Central Vermont, under Canadian National management, has improved as compared with the old days of Grand Trunk management.

Hon. Mr. STEVENS: It seems to be steadily improving.

Hon. Mr. DUNNING: Yes.

Mr. HENRY: The investment I gave here does not represent all the assets of the Central Vermont; it has a transportation company as well.

Mr. HARRIS: I would like to get a statement of the assets and liabilities, if possible.

Mr. HENRY: Could we give them, as of the date of the receivership?

Mr. COOPER: No, you would have to ask the court for them.

Mr. HENRY: We would have to apply to the court for that, Mr. Harris.

Hon. Mr. DUNNING: We have the statement for the 1926 assets and liabilities.

Mr. HARRIS: I was just following Mr. Henry's statement.

Mr. HENRY: We could easily put that on the record. I have the report as of December 31st, 1926.

Mr. HARRIS: The remarks you made are based on that particular statement?

Mr. HENRY: No, the remarks that have been made with respect to the Canadian National investment, have been made from our report which has been filed.

Mr. HARRIS: I do not see how you are able to give us an income statement, and, at the same time, you are not able to give us a statement of the assets and liabilities?

Mr. HENRY: The reason for that is because the books are in the custody of the court.

Mr. HARRIS: They were in the custody of the court before this was made out.

Mr. HENRY: We had those figures.

Mr. HARRIS: You must have the others?

Mr. HENRY: No.

Mr. HARRIS: How is it that you have this and you have not the assets and liabilities?

Mr. HENRY: The assets and liabilities are a different thing, Mr. Harris.

Mr. HARRIS: It is the same set of books?

Mr. HENRY: It is the same set of books, but the inter-relationship which existed between ourselves and the Central Vermont was such that they furnished us with a monthly income account; they did not furnish us with monthly balance sheets.

Mr. HARRIS: This is not a monthly statement, it covers a six months' period.

Mr. HENRY: That is a result of the monthly situation.

Mr. HARRIS: We have no statement of the assets and liabilities of the Central Vermont Railway, except that one for the period ending December 31st, 1926, is that right?

Mr. HENRY: We could produce one by going to the court and getting it, as of the date of the receivership.

Mr. HARRIS: You have none in your possession at the present time?

Mr. HENRY: No.

Mr. McLEAN (Melfort): Was it not due to the change in the assets and liabilities of the road that it was handed to the receiver?

Mr. HENRY: The reason it went into the hands of the receiver was because of the necessity of raising \$3,000,000 to rehabilitate the road.

Mr. McLEAN (Melfort): To repair the damage done to the assets, and provide for an increase in the liabilities?

Mr. HENRY: To repair the damage done to the roadway to permit it to operate at all. There were ninety miles of road which were absolutely washed out.

Mr. McLEAN (Melfort): Would that not affect your assets?

Mr. HENRY: Whenever receivers' certificates are issued, either for this cost of rehabilitation, or for the operating deficits which result during the receivership, they will have to be a prior charge, and will have to be taken care of before the interest of the National Railways. Naturally, when it emerges, it will have some portion of this additional charge on it.

Mr. HARRIS: On what statement was the road put into receivership? There must have been a statement which was the basis of ordering the receivership?

Mr. HENRY: I think it was done by the National Railways applying to the court, it being the largest investor.

Mr. HARRIS: They must have had a statement before them.

Mr. HENRY: Oh, yes, they had a statement of the amount of money required to put it into shape.

Mr. HARRIS: This is not the statement?

Mr. HENRY: No, that is the income account; it represents the results of operation.

Mr. HARRIS: I do not want to embarrass the railway in any way, but is it possible that we could have the benefit of the statement on which you based your judgment that it should go into receivership; you being the largest creditor?

Mr. HENRY: I think we have it, but I do not happen to have it with me today. I do not think there would be any objection to presenting that.

Mr. HARRIS: I do not feel that the Committee has any real information. They have this, but it has nothing to do with the receivership, or nothing to do with the standing of the Central Vermont Railway.

The CHAIRMAN: The first day Sir Henry was here he gave us a statement that the reason for asking that it go into receivership was that the Canadian National did not feel disposed to spend all of this money on re-establishment, and let the minority shareholders have the benefit of it.

Mr. HARRIS: I quite appreciate that, but it would be better if the Committee had the statement on which he based his judgment.

Mr. HENRY: That was largely, Mr. Harris, an estimate of the amount of money involved to rehabilitate it, which estimate resulted from an inspection made by our officers following the flood.

Mr. HARRIS: Perhaps the Committee is satisfied to take Sir Henry's judgment, but, at the same time, they would like to see the facts on which it is based.

Hon. Mr. DUNNING: There is one way in which we could possibly arrive at that; we could take the 1926 balance sheet, and we know that there requires to be added, in the form of expenditures, \$3,500,000.

Mr. HARRIS: We do not seem to be able to get information on the gap in there, between 1926 and the time the C.N.R. made up their mind it was good business for this road to go into the hands of a receiver. If it is not in the interest of the railway to give that information, as to the statement of assets and liabilities, and they object to it being given, I do not want it. If there is no reason why it could not be given, I do not see why the Committee should not have it.

Hon. Mr. DUNNING: There is a way in which we can arrive at an approximation, at any rate, of the assets and liabilities. We have before us the 1926 statement of the assets and liabilities; we know that the receiver is now expending money, and we know, because of our interest in the property, the approximate total of the money which is being invested in the property to replace what was destroyed by the flood. There is unquestionably an addition to the liabilities, as it now stands in receivership, of \$3,500,000, over the liabilities at the end of 1926.

Mr. HENRY: Plus the operating deficits.

Hon. Mr. DUNNING: If the Committee could do anything about that, I do not know of any reason why any information should not be given to the Committee. If there is such a thing as a balance sheet up to the time it went into receivership, I know of no reason why it should not be produced.

Mr. HENRY: We can produce one, Mr. Dunning.

Hon. Mr. STEVENS: I do not see any objection to it. I think you are a little unkind to the Central Vermont, in your summary, because out of this three or four million dollars to repair the damage of the flood, a certain portion of it would undoubtedly have an added benefit to the road, which would mean a partial increase in the assets, as well as a total increase in the liabilities.

Hon. Mr. DUNNING: Sir Henry admitted that in his first statement with regard to this matter.

Hon. Mr. STEVENS: It cannot be ascertained until the improvements are completed, and the expenditures made, just what the effect will be?

Mr. HENRY: That will not be known until the receivership is discharged.

Hon. Mr. STEVENS: In the meantime, it does seem to me that Mr. Harris' request is not unreasonable. That is, a statement of the assets and liabilities, at the time of the receivership, should be given. May I say this, Mr. Chairman,

and I have been hesitating very much to ask the question, that I think your own statement bears out the fact that there is nothing to be gained by any secrecy here.

Hon. Mr. DUNNING: Not at all, especially with respect to the accounts.

Hon. Mr. STEVENS: You have published this, and the whole world has it, and you may rest assured that it is carefully analyzed by anyone interested. The upshot of it is that the Canadian National Railways is, by long odds, the main creditor of this road, and the equity of the minority shareholders only amounts to nothing minus something.

Hon. Mr. DUNNING: There are the bondholders as well.

Hon. Mr. STEVENS: Of course, that is a different thing. You are responsible for the bonds?

Hon. Mr. DUNNING: There is no possibility of embarrassment to the receivership, as I see it, in discussing anything which is in these accounts. There is only one thing to bear in mind, and that is that the minority stockholders are all citizens of the United States, and citizens of the State of Vermont.

Sir EUGENE Fiset: How would you propose to raise the money to pay for whatever deficit may exist, that \$3,000,000 that you mentioned? Do you propose to issue new bonds, and guarantee the bonds, or do you propose that the Government should vote it yearly, and treat the Central Vermont in the same manner as you are treating the Eastern section of the National?

Hon. Mr. DUNNING: They are not going to do that; whatever happens that will not be done. Any reorganization will have to wait on the outcome of the receivership, there is no question about that. Until the court determines just who is who, and what is what in the matter of claims of creditors, there cannot be any definite statement made as to where we might go from there. We have every assurance, from the manner in which the court proceedings have gone so far, that there is a disposition on the part of the American courts to treat the Canadian National's interests in the property very fairly. That is not saying too much, is it, Mr. Hungerford?

Mr. HUNGERFORD: That is the situation.

The CHAIRMAN: Have you any further questions on the Central Vermont? If not, we will go on with the rest of the accounts. We will take up Expenditures, less Retirements, during the year 1927, applicable to investment in road and equipment. This appears on page No. 21. You will notice that we have both the Eastern lines and the Canadian National; they are tabulated together, although they are separated.

Mr. HENRY: The first item is "Engineering"—

Mr. HARRIS: Mr. Chairman, before we go into that, is it possible for us to get a little more definite statement with regard to the authority upon which certain items go into investment in road and equipment, and how that authority is reviewed afterwards? I understand the authority comes from the management of the C.N.R., but is there any review of that authority by anybody in Canada who has the authority to act?

Mr. HENRY: I do not think so.

Mr. COOPER: The auditors of the Department of Railways and Canals examine our charges to Capital accounts.

Mr. HARRIS: Have you found in your experience, say, in the last year that they recommended that some of these items you have charged here to road and equipment should perhaps be charged to expenditures or retirements?

Mr. COOPER: No, I do not think they would have any grounds for suggesting that. I think our accounts are correct.

Mr. HARRIS: I quite appreciate that you are 100 per cent efficient, but we are not all infallible. Have you had any instance where the auditors have found it necessary to question your charges to road and equipment?

Mr. COOPER: No, I would say not. I would say, though, that they from time to time ask us as to the basis for the division between operating and capital.

Mr. HARRIS: And the answer you give them is final, as far as they are concerned? In other words, you become almost a law unto yourselves?

Mr. COOPER: I would say this: if they go over our work in that way they would need a staff almost as big as we have.

Mr. HARRIS: Perhaps you could tell us how the Inter-State Commerce Commission does it?

Mr. COOPER: The Inter-State Commerce Commission does not—

Mr. HARRIS: We had the statement a while ago that their inspectors did.

Mr. COOPER: I was going to make an exception to that. Except for special investigations it is not the practice of the Inter-State Commerce Commission to police the charges to capital account. They hold the railways severely accountable for carrying out their instruction and provide severe penalties for failures.

Mr. HARRIS: But not in this country?

Mr. COOPER: I do not know of any penalties in this country.

Mr. HARRIS: The matter is entirely within the hands of the management of the C.N.R., within reason, as to where you will place these costs, whether they go into road and equipment, or into capital charges.

Mr. COOPER: Yes. We have independent auditors, who are also responsible for the checking of our distribution—

Mr. HARRIS: I quite appreciate that they do not go beyond that.

Mr. COOPER: Yes, they do.

Mr. HARRIS: How far?

Mr. COOPER: I would say, to a very great extent. They check us up and take exception to some of our distributions, and we have to agree between us as to what is the correct distribution.

Mr. HARRIS: Would you enlarge on that a little farther, and enlarge the point you raised some time ago about the Railway Commission having some say in the matter?

Mr. COOPER: I do not just gather that question.

Mr. HARRIS: I raised the same question earlier to-day. Somebody said that the Railway Commission had some review in this matter.

Mr. COOPER: No. The accounting regulations governing the charges to investment account were issued by the Board of Railway Commissioners of Canada.

Mr. HARRIS: And your auditors work under those regulations?

Mr. COOPER: Yes, absolutely.

Hon. Mr. DUNNING: Are those regulations placed in the hands of the outside independent auditors?

Mr. COOPER: Yes, they are just as cognizant of them as we are.

Hon. Mr. DUNNING: It is part of their duties to audit your compliance with these regulations?

Mr. COOPER: Yes sir, and they certify here that those accounts are correct.

Mr. BELL (Deputy Minister): Mr. Cooper, if you would explain the relationship between the American Railway Accounting Officers Association and the Commission in classifying these accounts, and working out these disputes, it might clear up something which Mr. Harris wants to know.

Mr. COOPER: The classification of investment accounts as prescribed by the Commission was drawn up after consultation with a committee of the Railway Accounting Officers Association. All of the Classified roads in the United States are members of the Railway Accounting Officers Association. The classification, before adoption by the Inter-State Commerce Commission, was discussed with the Railway Accounting Officers, and it is the consensus of their opinion that this classification is the proper classification to adopt. From time to time the Railway people do suggest revisions of that classification, and they are discussed by the Association and recommended to the Commission, and if agreed to by the Commission are made parts of the classification.

Mr. BELL (Deputy Minister): As a matter of fact, no change is made without referring it to the Accounting Association to get their opinion and the opinion of the leading accounting officers from one end of the country to the other.

Mr. COOPER: They always get the opinions, but they do not always follow them.

Hon. Mr. DUNNING: When you say "accounting officers" you mean the accounting officers in Canada or in Canada and the United States?

Mr. COOPER: Both.

Mr. BELL (Deputy Minister): All the leading railways are members of that. I might say, Mr. Harris—I do not know what it will be worth—that our classification of accounts as between operating and investment is as correct as it is possible for railway accounts to be made. You understand, that is only my personal opinion.

Mr. HARRIS: Over what period of years?

Mr. COOPER: We are talking about the present year, 1927, but my experience goes back to the commencement of the Canadian National Railway system.

Mr. HARRIS: I do not want to divert from this argument, Mr. Chairman, but I want to make this one observation, that the increase in the capital assets as shown by this statement is certainly rather out of proportion to the real value of the railway as it stands to-day.

Hon. Mr. DUNNING: Mr. Chairman, that is rather important. If that is so, I think we should have it demonstrated and have the officers examined on that point. If there is an inflation of the capital account, I think it is the most important thing that could come before this Committee. (To Mr. Harris.) I think you had better proceed on that. I, for one, want to know if that is the case.

Mr. HARRIS: I would ask if Mr. Cooper, along the same accounting system, could not enlarge on that and give us some idea of what sort of sinking fund or reserve is built up in this regard, to take care of the depreciation of rolling stock which is in the capital asset account.

Mr. COOPER: That has nothing to do with the public charges to the investment charges themselves. That is another part of the balance sheet altogether.

Mr. HARRIS: I appreciate that, but the Minister seems to be anxious to review that part of it. It has nothing to do with page 21.

Mr. HENRY: Mr. Harris, this general statement may be taken as representing the point you raised last. The Canadian National Railways, except on

those lines operated in the United States, do not set up any depreciation or retirement reserve either with respect to roadway or equipment. What it does do is to charge to the current year's operations the cost of retiring those units which go out of service during that year, and in cases where there is a part retirement and a part betterment, the rules which the accounting classification provides as to that distribution are used to determine the amount to be charged to capital and maintenance, as the case may be. With respect to the United States lines the I.C.C. classification makes it compulsory for the railways to charge to their accounts each year an amount representing depreciation on equipment. It does not make it mandatory, but allows them to do that if they want to—to charge to their account depreciation upon their road items.

Mr. HARRIS: Under our system here, we do not do that?

Mr. HENRY: We do not do it, no.

Mr. HARRIS: Would it be safe to say that the original cost of that particular asset would be found in the total assets of the railways?

Mr. COOPER: No, it is written off. As a unit of equipment is retired it is written off.

Mr. HARRIS: The unit of equipment purchased and put into operation is included in the assets?

Mr. HENRY: Yes.

Mr. HARRIS: But, we will say, it is operated for a year and its depreciation is thus and so: there is no fund on the other side of the books to take care of the depreciation for the year gone by.

Mr. HENRY: It is a question whether in a large institution such as a railway, covering thousands of miles and thousands of items—

Mr. HARRIS: I appreciate that. I do not say for a moment that we should do thus and so. I want to bring out this particular point as it strikes me. You put this piece of rolling stock, which is really an asset, on the road, and then you retire it and put in some new elements on the road, and you operate them for a year. They stand on the books at 100 per cent of what they cost. Now, you start in and operate them for a second year, but you have no sinking fund to take care of the depreciation for the first year, and so at the end of the second year they stand on the books at their original cost.

Mr. HENRY: It is just a question whether in the operation of a large company such as a railway company extending over thousands of miles, it really makes very much difference over a period. The reason for that is this: that whilst it is true that proportion of the life of the various elements used is exhausted each year, it is equally true that there is charged to the expenses of that year, in respect to this item which was retired, the entire life, so that even if you had a sinking fund reserve over a long period, it is questionable whether it would make very much difference. In a specific year it probably would.

Mr. HARRIS: I would like to follow this a little further. During the last, we will say, five years the Canadian National railway has found it necessary to rehabilitate to a very large extent the different parts of the system. That is correct?

Mr. HENRY: That is correct.

Mr. HARRIS: In the rehabilitation it has been found necessary to retire some units which were not of very much value and buy quite a number of other elements which were quite costly?

Mr. HENRY: That is correct.

Mr. HARRIS: Those units to-day are in operation and stand on the books of the railway at 100 per cent of their cost?

Mr. HENRY: At their cost. That is, provided they were new units and did not involve a retirement at that time. If they did, they stand in the books at the difference.

Mr. HARRIS: The system of keeping the records is such that no depreciation or sinking fund is available when you find it necessary to retire this particular element?

Mr. HENRY: Except with respect to the U.S. lines, that is correct.

Mr. HARRIS: Then, if we found it necessary to-day to liquidate these assets, we would at the same time find it necessary to take a considerable loss in depreciation and sinking fund, even if we got 100 per cent of their to-day's value.

Mr. HENRY: That is a question. It depends on how you were going to liquidate them.

Mr. HARRIS: I can quite appreciate that over a period of fifty years, probably your theory would be quite sound, but inasmuch as this road is newly rehabilitated and very large expenditures have been made to put it on a proper basis, the position during the early years is such that the capital assets of the company are away in excess of the real value of those assets.

Mr. HENRY: The capital assets are away in excess of the real assets? There is one thing which has to be taken into consideration, of course, in making that statement and that is that quite apart from any depreciation which may exist, it is a fact that the cost of some of the elements which went into the property, say, between the period from 1920 to 1923, is a great deal higher than at that time—

Mr. HARRIS: I quite appreciate there is an appreciation.

Mr. HENRY: That in itself might be a rather serious matter.

Mr. HARRIS: That is getting away from the main point.

Mr. HENRY: But I think it is probably a reasonable statement to make, and one which is based upon the experience of the railroads in the United States and Canada over a period of years, that is impossible to keep a railway in a condition in excess of, say, 85 per cent of what it would cost to replace it now. There is probably that amount of accrued depreciation you would never be called upon to make good.

Mr. HARRIS: My idea is that we are in this position to-day; we find ourselves spending a lot of money on different elements necessary to rehabilitate all these lines. That money—up to 100 per cent—is still listed in our assets with no depreciation or sinking fund. Take a hypothetical case: if the life of this element was 10 years, we would find ourselves at the end of 10 years with this large investment of new elements to-day on our hands and find it necessary to retire them and replace them, so we would be in a position at that time where we would again have to make very large capital commitments to replace the elements we have retired.

Mr. HENRY: Of course, what would happen there, Mr. Harris, would be this: that the operating expenses under those conditions, provided we intended to keep the railway operating, would be heavier; that is, the amount you would charge to current operation to make good the life at the high prices—which I presume is what you are speaking of—when exhausted would have to be charged to operating expenses, and, therefore, we would have a larger credit in the operating results of that year to apply to the purchase of the equipment we intended to replace the retired material with. As an illustration of that, I might say that in 1927 the retirement feature amounted to approximately \$14,000,000.

Mr. HARRIS: And the betterments were how much?

Mr. HENRY: The betterments were \$45,000,000.

Mr. HARRIS: As one year succeeded the other, you would find that your retirements features would be more and more.

Mr. HENRY: If the situation to which you refer exists to a large degree, it means that at some time in the future our operating expenses would be relatively higher than they are now. That is true.

Mr. HARRIS: As one year succeeds the other the retirements, after we get the first use of all these new elements we have during the last five years, will be more and more.

Mr. HENRY: For instance, if you put in ties for 100 miles this year, it is improbable you would have to renew those ties in that 100 miles inside of six or seven years, and naturally at that time your retiring feature on that particular section would be much higher, but at that time the charge would be an operating charge.

Mr. HARRIS: Mr. Henry, I imagine the railway has a fairly good idea of the life of the different elements which go to make up the whole railway system. If a sinking fund were arranged of sufficient magnitude to reasonably take care of those elements when they were to be retired, and the difference in their value at retirement and the cost of replacement, would it not be a fact that we would find it necessary to vote more money than we are voting now to take care of that depreciation.

Mr. HENRY: If you proceed upon the assumption that it was proper practice in any one year to charge to the operations of that year the amount of exhaustive life due to these operations, it is probable your statement would be correct.

Mr. HARRIS: Then taking it just at that point, it is probable your statement is correct—

Mr. HENRY: Wait a minute—

Hon. Mr. DUNNING: Only in so far as this amount would exceed the retirements.

Mr. COOPER: In any case the bookkeeping charge for depreciation would not be voted. The government would not give us that in cash unless we were to invest it. It would not be necessary to vote any more money.

Mr. HENRY: It is just a question of opinion, Mr. Harris, as to whether or not it is good practice to assume a theoretical life—

Mr. HARRIS: I am not urging a practice at all. I just wanted to go into that a bit. Assuming that is reasonably correct then that particular amount of money which to-day we find in this in the assets—

Mr. HENRY: Of course, in setting up that depreciation, you would have to bear in mind that, due to the retirement which did take place in the year 1927, that amount would have to be deducted from whatever was set up.

Mr. HARRIS: Oh, yes, I quite appreciate that.

Hon. Mr. DUNNING: What is the C.P.R.'s practice in this connection?

Mr. HENRY: They do not set up a depreciation reserve. I believe that their practice is not to increase the capital account unless the units of equipment are increased.

Mr. HARRIS: I just want to make one observation on the statement of the Minister. I think he realizes that the C.P.R. have not found it necessary to rehabilitate to the same degree as the C.N.R. with the result that the increase in their capital cost would not be so much during the last five years, as has been the case with the Canadian National Railways. Their affairs are running along a little more uniformly than ours.

Mr. HENRY: The Canadian Pacific Railway were a few years in advance of the Canadian National Railways in establishing the permanency of a great

* many of their structures. This was done at a lower basis of price than ours, and, consequently, our capital expenditures during the past few years have been relatively higher, of necessity.

Mr. HARRIS: The difference between these two positions is reflected in the increased statement of assets that we have in this statement?

Mr. HENRY: I did not catch that question?

Mr. HARRIS: The situation is reflected in the statement of assets and liabilities? These betterments which we have found necessary to put in in the last five years are one hundred per cent in the statement of assets, whereas the actual value of them to-day is the difference between what they cost and how much of their value has been exhausted through use? That particular exhaustion is not represented in the balance sheet for the years to come, and we will find it necessary to take care of that?

Mr. HENRY: The capital expenditures which have been made in the last five years, and the retirement of which has not taken place during that time, have naturally exhausted a certain proportion of their life. To that extent, of course, the balance sheet does not reflect that loss of life, or loss of value.

Mr. HARRIS: Inasmuch as it does not reflect that loss in life, and loss in value, and inasmuch as these expenditures have been exceptionally heavy during the last five years, then the statement of assets—I would not say it was inflated, but I think the Minister used that word—shows that much more money. If the Minister wants to call it an inflation, he may do so.

Hon. Mr. DUNNING: Do not put the word "inflation" in my mouth.

Mr. HARRIS: You put it in mine.

Hon. Mr. DUNNING: That is what I thought you were attempting to show.

Mr. HARRIS: I quite appreciate that my vocabulary is not quite as large as the Minister's.

Hon. Mr. DUNNING: I thought that your point was to demonstrate that the assets were inflated; that is, that the statement showed the value of assets which were non-existent.

Mr. HARRIS: I did demonstrate it to the satisfaction of myself, if not to the other members of the Committee.

Mr. HENRY: If you did set up a reserve the assets would not be depreciated.

Mr. HARRIS: I am not suggesting that it should be done, but, at the same time, I just want that point brought out. In the years to come we will have to take care of the exhaustion which has gone on in the last five years, due to the very heavy rehabilitation costs?

Mr. HENRY: A large part of that rehabilitation has been in fairly permanent work.

Mr. HARRIS: It will exhaust itself.

Mr. HENRY: The Expenditure, Less Retirement, During the Year 1927, Applicable to Investment in Road and Equipment are divided, as shown on page 21, and show the eastern lines and the remainder of the system in separate columns. Engineering, on the eastern lines, is \$3,639.34; for the balance of the system, \$736,573.20; Land for Transportation Purposes, for the eastern lines, \$7,228.26; and the balance of the system, \$2,673,627.79.

Mr. JELLIFF: Where was that land acquired?

Mr. HENRY: That is land acquired for all purposes throughout the system, branch lines, sidings, and so on.

Mr. HARRIS: Could you give us an idea of just what territory that covers? I was thinking more particularly of the change that has taken place in the waterfront of the city of Toronto.

Hon. Mr. DUNNING: The Toronto terminals would be separate.

Mr. HENRY: I do not know that we can give you that at the moment.

Hon. Mr. DUNNING: This acquisition of land within the Toronto Terminals Company is not included?

Mr. HENRY: No.

Hon. Mr. DUNNING: But any Canadian National land in Toronto, outside of that area, would be there?

Mr. HENRY: That is correct.

Mr. HARRIS: It is really that last point that I wanted to get, outside of the Toronto Terminals Company?

Mr. HENRY: In Toronto?

Mr. HARRIS: And the Township of Scarboro?

Mr. HENRY: I cannot give you that offhand.

Hon. Mr. DUNNING: Could you get it for the next sitting of the Committee?

Mr. HENRY: Oh, yes.

Mr. HARRIS: For Toronto and the Township of Scarboro. If I could have that information at the next sitting, it would be satisfactory.

Mr. CANTLEY: Would the accountant be good enough to tell us what percentage of the whole system is included in the eastern division?

Hon. Mr. DUNNING: In mileage?

Mr. HENRY: It is 2,880 miles for the eastern division, but that only includes the six months' period.

Hon. Mr. DUNNING: It is 19,090.99 for the system, less the Eastern Lines. That appears on page 38 of the Red Book. Then, on page 13 of the Eastern Lines' report you will find the Eastern Lines mileage.

Mr. HENRY: No. 3, Grading, for the Eastern Lines, \$61,677.60; for the rest of the system, \$5,215,023.57.

Mr. HARRIS: Could I have the same information there, if it is not too much to ask for?

Mr. COOPER: We can divide that.

Hon. Mr. DUNNING: Mr. Harris wants it for Toronto and Scarboro Township, exclusive of the Toronto terminals.

Mr. COOPER: I would not engage to get it by to-morrow morning.

Mr. HARRIS: There is no particular hurry.

Hon. Mr. DUNNING: That includes your grading for branch lines?

Mr. HENRY: Oh, yes. Under the branch lines we spent \$8,000,000.

Hon. Mr. DUNNING: How could that include the \$8,000,000?

Mr. HENRY: That is only grading. Tunnels and Subways, for the Eastern Lines, \$4,242.74; for the rest of the system, \$33,246.94. Bridges, Trestles and Culverts, for the Eastern Lines, \$52,175.39; for the balance of the system, \$3,017,208.38. Ties, for the Eastern Lines, \$17,446.38; for the balance of the system, \$755,073.32.

Sir EUGENE Fiset: That covers the ties put down?

Mr. HENRY: The ties used for addition.

Hon. Mr. DUNNING: For new work?

Mr. HENRY: New work.

Mr. JELLIFF: Is the Hudson Bay Railway included in that?

Mr. HENRY: No. Rails, for the Eastern Lines, \$133,439.46; for the rest of the system, \$1,416,662.65.

Hon. Mr. DUNNING: There would be some retirement deduction in that case?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: That is, when the rail is laid you credit that part of the system with the value of the old rail?

Mr. HENRY: We only charge the difference in weight.

Hon. Mr. DUNNING: This is the difference, then, between the cost of the new and the value of the old?

Mr. HENRY: Plus the new rails for branch lines.

Mr. COOPER: The difference in weight only; the additional weight at the current price. We do not retire at the original cost, we retire at the present day price.

Mr. HENRY: Other Track Materials, for the Eastern Lines, \$158,941.06; for the rest of the system, \$2,433,027.83.

Mr. HARRIS: How do you figure the retirement there?

Mr. HENRY: They follow the same rule, as applied to the rails.

Mr. HARRIS: It would be by weight?

Mr. COOPER: We would charge the additional weight, so far as angle bars are concerned, for instance.

Hon. Mr. DUNNING: What does Other Track Material include?

Mr. COOPER: Switches, angle bars, crossings, and so on.

Mr. HENRY: Connecting rods, derails, frogs, grade rail blocking, grade rail clamps, grade rail fasteners, nut locks, rail clips, rail joints, rail splices, switch chairs, switch crossings, tie plates, tie blocks, track spikes, and track insulators.

Mr. CANTLEY: There are only three or four of those items that could be used over again, the rails, fish plates, and crossings?

Mr. HENRY: With relay rails, all the material is taken out and used over again.

Mr. CANTLEY: But when you come to tie plates, and nut locks and bolts, they go into the scrap heap?

Mr. BELL (Deputy Minister): That is charged to operating.

Mr. CANTLEY: I was just pointing out that there were only three or four of the items that were really replacement items.

Mr. HENRY: That is correct. Ballast, for the Eastern Lines, \$43,682.25; for the balance of the system, \$1,583,619.63.

Mr. HARRIS: Any retirement there?

Mr. HENRY: Yes, the retirement there amounted to \$43,000.

Mr. HARRIS: That is to say, \$43,000 was charged to the operating account?

Mr. HENRY: That is not the total charge. In addition to that, the operating accounts were charged with \$844,387, for the remainder of the system, exclusive of the Eastern Lines.

Hon. Mr. DUNNING: The amount in this item No. 11, is, practically speaking, ballast on new work?

Mr. HENRY: No, it means the regular ballast on old work, and increased lift. Ordinarily, the amount of ballast used on a track varies, to a certain extent, with the traffic. You may start out with a six inch lift, and, as the traffic increases, you would bring it up to a foot. The difference between the six inches originally put there, and the twelve inches, would be a capital charge. The branch lines, of course, are there as well. On the Eastern Lines, the ballast for the six months ending December 31, 1927, was \$43,958.

Hon. Mr. DUNNING: Charged to Operating?

Mr. HENRY: Charged to Operating Expenses. Tracklaying and Surfacing, for the Eastern Lines, \$70,080.55; for the balance of the system, \$1,146,243.38. Right-of-Way Fences, for the Eastern Lines, \$17,214.13; for the balance of the system, \$101,739.41. Sand and Snow Fences and Snow Sheds, for the Eastern Lines, \$2,353.52; for the balance of the system, \$25,950.31. Crossings and Signs, for the Eastern Lines, \$5,152.37; for the balance of the system, \$205,860.20.

Mr. HARRIS: Are the Railway Board ordering any more crossings?

Mr. HENRY: They are.

Mr. HARRIS: What is the policy of the road with regard to that?

Mr. HENRY: That includes overhead bridges, you know, and things of that kind.

Mr. HARRIS: Have you any fund from which to draw your requirements for the demands made by the Railway Commission for railway crossings?

Mr. HENRY: There is a Grade Crossing Fund, which was inaugurated in 1909, and against which the Board is authorized to contribute a certain proportion.

Mr. HARRIS: What proportion?

Mr. HENRY: I have forgotten just what it is.

Mr. BELL (Deputy Minister): It is 40 per cent, but not to exceed \$25,000.

Mr. HARRIS: And is the municipality affected?

Mr. BELL: The Board may assess, as they see fit, but they cannot charge the Grade Crossing Fund more than 40 per cent of any one crossing and not over \$25,000.

Hon. Mr. DUNNING: I am thinking of introducing an amendment to that which will broaden its scope a little. I have a notice on the Order Paper now.

Mr. CANTLEY: I suppose this is an indication that they apparently regard life in the Maritime Provinces as being of very little value, because there is only about one-fortieth spent there, as compared with what is spent on the balance of the road.

Hon. Mr. DUNNING: You make it up in the next item.

Sir EUGENE Fiset: The next item is the only item where the Eastern Division gets its fair proportion, as compared with the rest of the road.

Mr. HENRY: That is not quite correct, generally, for the reason that the balance of the six months of the expenditure on the Eastern Lines appears in the statement. That is only the capital expenditure for six months.

Sir EUGENE Fiset: Even when it is doubled it is not fair.

Hon. Mr. DUNNING: The explanation of that is that extensions to the system, involving a capital expenditure, are not being carried out on the Eastern Lines.

Mr. HENRY: Station and Office Buildings, for the Eastern Lines, \$471,429.75; for the balance of the system, \$1,626,335.92. Roadway Buildings, for the Eastern Lines, \$1,160.95; for the balance of the system, \$298,297.43.

Mr. JELLIFF: Going back to that previous item, where were the new stations built?

Mr. BROWN: On the Eastern Lines?

Mr. JELLIFF: Both Eastern and Western.

Mr. BROWN: There was a new station at Edmonton, in the west; a new train shed at St. John; a new station at Summerside; a new station at Flint, Michigan; and stations at 117 points.

Mr. CANTLEY: What is meant by Roadway Buildings?

Mr. HENRY: They are tool houses, and things of that kind. Water Stations, for the Eastern Lines, \$26,573.45; for the balance of the system, \$420,125.23. Fuel Stations, for the Eastern Lines, \$435.08; for the rest of the system, \$122,583.93. Shops and Enginehouses, for the Eastern Lines, \$123,834.83; for the balance of the system, \$843,084.84. Grain Elevators, for the balance of the system, \$66,547.97. Wharves and Docks, for the Eastern Lines, \$5,890.58; for the balance of the system, \$208,788.95.

Mr. CANTLEY: Before you pass from that item, and I have referred to this matter before; the papers generally report that the Canadian National Railways had turned over all of their terminal docks in the Maritime Provinces to the Public Works Department; is that correct?

Hon. Mr. DUNNING: To the best of my belief, we have turned them all over.

Mr. BELL (Deputy Minister): Where they are not closely identified with the railway we have been turning them over gradually to the Public Works Department. There are a great many cases where they were built in the old days of the Intercolonial, and charged to the Intercolonial, and as fast as we can turn them back to the Public Works Department we are doing so.

Mr. CANTLEY: The statement was made that all the docks of the Canadian National Railways, in the province of Nova Scotia, had been turned over; is that correct? For instance, what about the docks at Pictou?

Mr. BELL (Deputy Minister): The Pictou docks are in the process of being turned over.

Mr. CANTLEY: What about Halifax?

Mr. BELL (Deputy Minister): The Halifax docks have been turned over to the Harbour Commission, which was formed under the Act of last session.

Mr. CANTLEY: Does that apply to all the docks in Halifax, No. 24, No. 22, and No. 28?

Mr. BELL (Deputy Minister): I think they are practically all turned over.

Mr. CANTLEY: And the new immigration shed?

Mr. BELL (Deputy Minister): Yes.

Mr. CANTLEY: And the same is true down on the South Shore?

Mr. BELL (Deputy Minister): I understand so.

Mr. CANTLEY: That would cover all the wharves in the province of Nova Scotia?

Mr. BELL (Deputy Minister): I do not think they have been turned over at Pictou, nor Sydney.

Mr. CANTLEY: I understood you to say that the docks at Pictou were being turned over.

Mr. BELL (Deputy Minister): There was a little mixup on that.

Hon. Mr. DUNNING: The intention is to turn them over to the Public Works Department immediately.

Mr. CANTLEY: Why is that being done; why the change in policy?

Mr. BELL (Deputy Minister): Because that is the proper place for them; they are not part of the railway.

Mr. CANTLEY: That is a matter of opinion. Take the docks at Pictou, they are not public docks in any sense of the word at all; they are simply terminal docks of the railway.

Mr. BELL (Deputy Minister): The general policy throughout the rest of the Dominion, is for the Public Works Department to build the docks, and they are just adjusting the Maritime Provinces to that.

Mr. CANTLEY: I am not objecting to it, but I am objecting to the explanation. That statement, pardon me, is not correct. The cars come in to the dock, and the freight is discharged in a shed, and it is used exclusively for the railway, and for no other purpose.

Mr. BELL (Deputy Minister): You are speaking of Pictou?

Mr. CANTLEY: I am speaking of Pictou. Then, take the dock farther down in the harbour; that is used for the handling of lumber, and for no other purpose. Public teams cannot get on it at all, as it is covered with railway tracks, and rightly so. Both of those docks are purely and simply railway docks, and are not public docks in any sense of the word. They are not used by the public, apart from getting freight to and from the railroad.

Witnesses retired.

The Committee adjourned until Thursday, April 19, at 11 a.m.

SESSION 1928

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4—APRIL 19, 1928

WITNESS:

Chief Witness—Mr. R. A. C. Henry, Director, Bureau of Economics, Canadian National Railways.

Assisted by: Mr. T. H. Cooper, General Auditor, Mr. S. J. Hungerford, Vice-President, Mr. W. D. Robb, Vice-President, and Major G. A. Bell, C.M.G., Director, Canadian National Railways.

OTTAWA
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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

THURSDAY, April 19, 1928.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. this day, Mr. Goodison, the Chairman, presiding.

Members of the Committee present: Messieurs Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne and Stevens (Hon. H. H.)—9.

Mr. R. A. C. Henry was again in attendance as the chief witness for the day; assisted by Mr. W. D. Robb, Vice-President, Mr. S. J. Hungerford, Vice-President, Mr. T. H. Cooper, General Auditor. Numerous other officials of the Canadian National Railways were also in attendance to supply any information required by the Committee.

Resumed consideration of the Annual Report at page 21, where dropped at adjournment of previous meeting. Items 24 to 47 under "Road" were considered in detail.

Under "Equipment" items 71 to 77 were considered and discussed.

Pages 22 to 38 were taken up in successive order and considered in such detail as thought necessary by the Committee.

Considerable discussion with Mr. Stevens with reference to the issue of Equipment Trust Certificates, as mentioned at page 7, and again on pages 26-27 of the Annual Report.

The consideration of the Annual Report being completed, and the hour of one o'clock having arrived, the Chairman announced that it was time to adjourn.

It was decided to meet again on Tuesday, April 24th. The Committee adjourned.

MINUTES OF EVIDENCE

COMMITTEE ROOM 497,

HOUSE OF COMMONS,

THURSDAY, April 19, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: We left off at Item No. 23, yesterday.

Mr. HENRY: Coal and Ore Wharves, for the Eastern Lines there is nothing; for the balance of the system \$47.17. Telegraph and Telephone Lines, for the Eastern Lines, nothing; for the balance of the system, \$61,360.01.

Mr. JELLIFF: Is that due to extensions?

Mr. HENRY: That is extensions and betterments; improvements in existing lines.

Hon. Mr. STEVENS: Is the Telephone and Telegraph revenue kept separate?

Mr. HENRY: It is kept separate, but it all goes into the general fund; the revenue on one side and the expenses on the other.

Hon. Mr. STEVENS: Can you give us a brief idea of the telegraph service now owned by the company? You took over some western lines?

Hon. Mr. DUNNING: It is under negotiation now. You mean the one in the Maritime Provinces?

Hon. Mr. STEVENS: No, the one that was associated with the Western Union?

Mr. HENRY: The Great North Western.

Hon. Mr. STEVENS: Just give us a general outline. I do not want any great details, as far as I am concerned.

Mr. HENRY: Do you have in mind such things as the mileage, and so on?

Hon. Mr. STEVENS: Yes, and the main distribution, and the main system.

Mr. HENRY: Roughly speaking, it is divided into the Canadian National Telegraphs, and the Grand Trunk Pacific. The Canadian National embraces the old Canadian Northern and Grand Trunk, or the Great North Western.

Hon. Mr. DUNNING: The stock is held by the Canadian National?

Mr. HENRY: The stock is held by the Canadian National.

Hon. Mr. DUNNING: The Maritime people would be interested in the maritime situation, with regard to the Western Union. Could you give us any information on that, without embarrassing the negotiations?

Mr. HENRY: We have been in negotiation with the Western Union for the last two or three years, for the purpose of acquiring their lines in the Maritime Provinces. The price which they originally asked was a little bit higher than we thought the property was worth, and negotiations were cut off for a while. They have since been resumed, and a committee has been appointed, consisting of members of the various interests, and a valuation is being made.

Hon. Mr. STEVENS: What connection have you now with any transatlantic cable company?

Mr. HENRY: I am afraid I cannot answer that. I will have to get Mr. Robb to answer that.

Hon. Mr. STEVENS: I do not want to ask anything that is going to be embarrassing, and I do not want you to uncover anything.

Hon. Mr. DUNNING: We must have a connection with some transatlantic cables, but I just cannot recall what it is at the moment.

Sir EUGENE Fiset: You have some connection at the present time with the Marconi people at Father Point?

Hon. Mr. DUNNING: That is a wireless connection.

Mr. McLEAN (Melfort): There is the cable connection at Cable Hill in Nova Scotia.

Hon. Mr. DUNNING: We will have Mr. Robb come up here.

Mr. McLEAN (Melfort): Are all your telegraph lines those that run on the railway right-of-way?

Mr. HENRY: I think, generally speaking, that is true. The telegraph mileage, used for commercial purposes, embraces 68,452 miles; the wire used for railway purposes, 25,834 miles; and jointly, that is, for both commercial and railway purposes, 21,004. The telephone wires used for train dispatching, 23,220 miles; and for other purposes, 1,817. This makes a total wire mileage of 140,000 miles. We have 1,766 offices in Canada, and 31 in the United States. The offices of the management and staff are located in Toronto.

Hon. Mr. STEVENS: I see a paragraph in the President's report that really is interesting. It says, "the net income from telegraph service increased from \$241,249 in 1926 to \$403,967 in 1927.

Mr. HENRY: In 1927 we had completed, between Montreal and Toronto, the carrier current system, which enabled us to increase the capacity of our wires a great deal, and, therefore, permitted an increase in business. The operating revenues of the Canadian National Telegraphs, and the Grand Trunk Pacific, in 1927, were \$4,921,000; in 1926 they were \$4,511,000. The operating expenses in 1927, were \$4,129,000; in 1926, \$3,856,000. The net operating revenue, in 1927, was \$791,000; in 1926, \$655,000. The net income, after paying all charges, was \$368,000 in 1927; and \$218,000 in 1926.

Hon. Mr. STEVENS: You do not show this telegraph revenue separately in your Revenue Account?

Mr. COOPER: It is included in the income statement on page 15, under account 512, Separately Operated Properties.

Hon. Mr. STEVENS: That includes other things?

Mr. COOPER: That includes a number of subsidiary companies, of which the telegraph company is one.

Hon. Mr. STEVENS: I suppose there is no objection to showing it as a separate item?

Mr. COOPER: It is intended with the 1928 account, to include telegraph revenues and expenses with the railway revenues and expenses, but that is a change that is only to take place this year. The full results of the company are included in the final statement.

Hon. Mr. DUNNING: Here is Mr. Robb now. Mr. Robb, there is some question as to the negotiations for the acquisition of the Maritime lines. Will you tell the Committee as much as you can about that, without embarrassing your negotiations?

Mr. ROBB: When the amalgamation took place, with the Canadian National Telegraphs as part of the Canadian National Railways, we did not have the British Columbia line, and only went as far as Moncton. We procured the British Columbia line from the Western Union, but we were not able, at that time, to procure the Maritime Provinces lines of the Western

Union. They were not inclined to let us have the line, and they put a price on them which we thought prohibitive. In addition to that, they just simply said that they were not for sale, and we dropped negotiations. Over a year ago we took them up again. I explained to Mr. Carlton, the President of the Western Union, that they were lines which we felt the Canadian National ought to have, as our system was not complete unless we went from coast to coast. I told him that it would not interfere with his cables in any way. They were afraid that if we took the lines over it would leave the cables isolated, and so on. We finally convinced him that it would not interfere with that whatever, and he said that if we could agree on a price, and the physical conditions, and so on, he would probably be willing to sell. We appointed a committee of our people, and the Western Union people, and they went all over the Maritime Provinces' lines, and they agreed as to the physical condition of the property. After that, of course, we had to price out, and we priced out, from the Canadian National side, what we felt the properties were worth. The Western Union were also pricing out, from their side what they were worth. We placed two million dollars in the budget, as the amount that we would require, if we were going to take the lines over, because we expected them to be ready some time this spring. They are just about ready with all their figures, and are about ready to submit them. We will then get together and see if we can agree as to the price. It comes down to the question of revenue and expenses of the lines, and depreciation, and so on, as to whether it is worth our while to take them over. We cannot say that at the present time.

Hon. Mr. STEVENS: I asked about your connection with the cable to the Old Country?

Mr. ROBB: We have no cables. The cables belong to the Western Union, but we have a working agreement with them, not only on cable messages, but on all messages. They are practically our allies, all through the United States and all through Canada. We give them our business and they give us their business, which is a very important business to the Canadian National Railway. It takes in all the messages coming into Canada from the United States over the Western Union. We take their cable messages and transmit them, and we get a percentage for handling them, both coming and going.

Sir EUGENE Fiset: Does the same agreement exist, as far as wireless is concerned?

Mr. ROBB: No, we are not in the Marconi at all; the Marconi have a connection with the C.P.R. not with the Canadian National.

Mr. JENKINS: This will apply to Prince Edward Island also?

Mr. ROBB: You are talking about the Anglo-American?

Mr. JENKINS: Yes.

Mr. ROBB: They have an arrangement with the Western Union, and it will come under us as well.

Mr. JENKINS: You will be able to take over that system?

Mr. ROBB: Yes, sir.

Mr. JENKINS: I understood that they had a lease?

Mr. ROBB: Yes, they have a lease.

Mr. JENKINS: You will be able to make amicable arrangement?

Mr. ROBB: Yes.

Mr. JENKINS: Will the employees in the service of the Anglo-American, or the Western Union, be put on a par with the other employees of the System?

Mr. ROBB: Yes, sir. That question came up when we took over the British Columbia line. The employees in the Western Union were very much concerned,

because they were on a very much lower rate than we were. They thought that they would lose their seniority, and so on. That has all been provided for. The employees in the Maritime Provinces will at once come under the schedule of the Canadian National Railway, which will give them quite a substantial increase, as was the case in British Columbia. Inasmuch as the subsidiary companies, including the telegraph companies, come under the pension system, they will be provided for the same as the employees on the railway. That means that if an employee in the Maritime Provinces has been forty years in the service, as soon as the Canadian National take over those lines, that employee's service would count, just the same as if he had worked for the Canadian National Railways.

Hon. Mr. DUNNING: That is, when you get your pension scheme?

Mr. ROBB: We have that pension scheme now. I might say that the employees down there were very much concerned about it. Last year, when I went down and looked over all the property, I went to the trouble of meeting all the heads of the employees down there, and I explained the situation thoroughly to them, and they were perfectly satisfied.

Mr. HENRY: Signals and Interlockers, for the Eastern Lines, \$7,742.46; for the balance of the system, \$355,734.61. Power Plant Buildings, for the Eastern Lines, nothing; for the balance of the system, \$86,426.56. Power Transmission Systems, for the Eastern Lines, nothing; for the balance of the system, \$23,847.30. Power Distribution Systems, for the Eastern Lines, \$437.54; for the balance of the system, \$97,459.41. Power Lines, Poles, and Fixtures, for the Eastern Lines, nothing; for the balance of the system, \$86,750.59.

Mr. MILNE: Does that cover electric trains and cars?

Mr. HENRY: That covers anything connected with the transmission of electricity, either for our electric lines, or for any other purpose. It means additions to them, and betterments to them during the year.

Mr. JELLIFF: Just where were those expenditures made?

Mr. HENRY: I think perhaps we can give you that. Montreal, Sarnia, and at the various larger centres throughout the system, and a miscellaneous aggregation of small expenditures.

Hon. Mr. STEVENS: I frankly do not see, from the standpoint of accountancy, why you should set up a special account for that?

Mr. HENRY: That is in accordance with the classification.

Hon. Mr. STEVENS: I suppose that classification assumes that that will be applicable to partially electrified roads, or wholly electrified roads?

Mr. HENRY: Anything that is required for the upkeep of any of the electrical installations, is first charged to ordinary maintenance, but anything that is added to it is charged to capital, under the classification.

Hon. Mr. STEVENS: I am not quarrelling with the Company's officials, but I am just simply criticizing for the moment, this classification. The accounts are supposed to reflect, as intelligently as possible, the general condition of the system, in as concise and clear a form as one could get it. Take these items, Power Transmission Systems, and so on; there are three or four items there, but they reflect nothing.

Mr. HENRY: They reflect the capital expenditure, the betterment expenditure during that year. It may only be one dollar.

Hon. Mr. STEVENS: But some of that may be in Vancouver, and some in Halifax, in little, petty local affairs? It might be a little line that you are running across to connect with the Ottawa Electric, to carry some power to your central station here, or something of that character?

Mr. HENRY: It might be.

Hon. Mr. STEVENS: My point is that it does not reflect anything on the operating part of your system?

Mr. HENRY: It means an addition, that is about all you can say.

Hon. Mr. STEVENS: Here is a great telegraph system that is included in an item with other subsidiary companies, which may not have any relation to telegraphs at all. I am just drawing attention to that rather anomalous method of classification. A department having a net earning of \$700,000 is not reflected here at all, while another petty, little item is shown in a special account on your general statement.

Mr. COOPER: The point there is that some roads in the States have large expenditures under these items, and this classification was designed more for them, but was adopted by the Canadian National. If we have anything that falls into those accounts, it goes there.

Hon. Mr. STEVENS: The Chicago, Milwaukee and St. Paul Railway, for instance?

Mr. COOPER: The New York Central, and the B. & O.

Hon. Mr. DUNNING: I think your criticism is well taken. But, in a certain sense, these accounts are anticipatory of the future; that is, there is a tendency in certain sections, more and more in the direction of the use of electrical power for railroading in various ways.

Hon. Mr. STEVENS: But telegraphs have been used for what, generations?

Hon. Mr. DUNNING: I suppose the reason for that classification is that they were originally subsidiary companies.

Hon. Mr. STEVENS: That cannot be the explanation, because they are not provided for in this classification. My criticism is that they should be provided for in this classification.

Mr. HENRY: There is Item No. 26.

Hon. Mr. STEVENS: That is only \$61,000, and the net earnings are \$700,000.

Mr. COOPER: The capital expenditure for Telegraphs is included in this item down here at the bottom, Investment Expenditures by Separately Operated Properties. That includes betterments to the Canadian National Telegraph System.

Hon. Mr. DUNNING: What is this \$61,000?

Mr. COOPER: That covers certain railway wires under the control of the Canadian National Telegraphs.

Hon. Mr. STEVENS: Track telephones, for instance, like the dispatcher's office, and things of that kind?

Mr. COOPER: For all purposes.

Mr. HENRY: Miscellaneous Structures, for the Eastern Lines, nothing; for the balance of the system, \$15,136.12. Paving, for the Eastern Lines, nothing; for the balance of the system, \$2,561.91. That item is a credit. Roadway Machines, for the Eastern Lines, \$5,835.62; for the balance of the system, \$22,434.05. Roadway Small Tools, for the Eastern Lines, \$227.55; for the balance of the system, \$15,225.37. Assessments for Public Improvements, for the Eastern Lines, nothing; for the balance of the system, \$190,737.04.

Hon. Mr. DUNNING: How is that properly an investment in road and equipment?

Mr. COOPER: This was by order of the Commission. If a municipality engages in some public improvement, the theory is that there is an added value to our property.

Hon. Mr. STEVENS: Like an overhead passage, or subway?

Mr. COOPER: Paving is the principal item.

Mr. HENRY: Revenues and Operating Expenses during Construction—

Hon. Mr. STEVENS: A subway would be an improvement, as it does away with a level crossing.

Hon. Mr. DUNNING: This does not include subway expenditures. There would be no public improvement assessment against the railway on a subway, but if they built a road in front of our freight sheds, for instance.

Hon. Mr. STEVENS: It might be a half and half proposition?

Hon. Mr. DUNNING: But it would not be charged against us as public improvement taxes.

Mr. COOPER: If they pave a street crossing we are responsible for a portion of that. Where we build a railway across the highway, we have to put in plank-ing, and all that surfacing is our obligation. If they replace that with permanent paving, we have to pay for a portion.

Hon. Mr. DUNNING: What are those italicized items?

Mr. COOPER: They are credits. The first item there, Revenues and Operating Expenses during Construction, \$212,920.60. The principal item in that is earnings during the construction period of the National Transcontinental Railway branch lines. The next item, \$1,278,201 is the cost of the Montreal Terminal Railway. When that property was purchased it was charged to this account No. 41. When we were unable to separate the elements in it, the amount of ties, rails, and so on, we credited account No. 41, and charged it to the appropriate primary account.

Hon. Mr. DUNNING: When was this road purchased?

Mr. COOPER: The money was paid over in 1927.

Hon. Mr. DUNNING: It was authorized a long time ago?

Mr. COOPER: Yes.

Mr. HENRY: Other expenses—Roads, for the Eastern Lines, \$285,210; for the balance of the system, \$150,057.93. Shop Machinery, for the Eastern Lines, \$60,059.36; for the balance of the system, \$238,238.85.

Mr. HARRIS: I understand that all these accounts find their way into item No. 701?

Mr. HENRY: Yes.

Mr. HARRIS: What is this shop machinery, is it all new equipment?

Mr. HENRY: That is lathes, and anything in the form of shop machinery that is installed in the various shops throughout the system, and additional equipment.

Mr. HARRIS: And the average life would be about what?

Mr. HENRY: That would be very difficult to say, as each machine has a different life.

Hon. Mr. DUNNING: What retirement did you have in that account; that will give us an idea?

Mr. HENRY: \$287,000.

Hon. Mr. DUNNING: You had more retirements than you had new?

Mr. COOPER: We had additions of \$565,000, retirements of \$287,000, making a net addition of \$277,000.

Hon. Mr. DUNNING: This is net?

Mr. HARRIS: How do you arrive at the amount of retirements; is that the original cost?

Mr. COOPER: Yes.

Hon. Mr. DUNNING: The original cost of the items retired?

Mr. COOPER: The original cost of the property retired.

Hon. Mr. DUNNING: I thought you said that you retired at current prices?

Mr. COOPER: In the case of rails and ties we do.

Hon. Mr. DUNNING: Why the difference?

Mr. COOPER: There is a conflict in accounting theories there. When you take a tie out it is difficult to identify it with the original cost, and the same with a piece of rail. It would be very difficult to trace the original cost of that rail, and retire it from the Property Account. In theory, it should be the original cost, but for practical purposes it is taken at the present day value.

Hon. Mr. DUNNING: One piece of rail of 1913, might be taken out, and 99 pieces left in; that is what you mean?

Mr. HARRIS: I see the accounts number from one to seventy-seven; how many more are there that go to make up account No. 701?

Mr. COOPER: Those are all the accounts. We have a few here which are grouped as Separately Operated Properties, but the accounts numbers 1 to 77 are still included in account No. 701.

Mr. HARRIS: When did this particular book-keeping system come into vogue with the Canadian National Railway?

Mr. COOPER: Since the Canadian National Railway system was consolidated in 1923, this present classification has been in effect, but it was in effect with the predecessor companies.

Mr. HARRIS: Since 1923?

Mr. COOPER: It has been in force for the full period, 1923-27.

Mr. HARRIS: That is to say, this list of accounts has been uniform from 1923.

Mr. COOPER: That is it.

Mr. HENRY: Power Plant Machinery, for the Eastern Lines, \$650.38; for the balance of the system, \$16,569.69. Power Substations Apparatus, for the Eastern Lines, nothing; for the balance of the system, \$3,678.79. Unapplied Construction Material and Supplies, for the Eastern Lines, nothing; for the balance of the system, \$82,350.61. The total for the road items, for the Eastern Lines, is \$1,279,111.72, for the six months ending December 31, 1927. On the balance of the system, the total is \$22,887,393.43, which includes the Eastern Lines for the first six months. The first item under Equipment, is Steam Locomotives, \$5,836,383.92.

Mr. HARRIS: That is net? What is the retirement?

Mr. HENRY: That is net.

Mr. HARRIS: Give us the total of the retirement on that?

The CHAIRMAN: The next page shows the numbers, but not the values; 91 retired, and additions of 56.

Mr. COOPER: The total ledger value of the retirements was \$1,172,489.

Mr. HARRIS: Is that the net value of the retirements, after the scrap value has been deducted from the original cost?

Mr. COOPER: That is the ledger value, the original cost.

Mr. HARRIS: What happens to the scrap value?

Mr. COOPER: The scrap value is deducted from that, to arrive at the loss which is chargeable to operating expenses. The ledger value is credited to the Property Account, and debited to Operating Expenses; the salvage then becomes creditable to the Expense Account.

Hon. Mr. DUNNING: So far as this account is concerned, the whole original cost is written off, that is, \$1,172,000, and your total expense for additions was what? It would be, of course, the sum of what is in the account, and \$1,172,000?

Mr. COOPER: The amount of \$5,836,383 is made up of new equipment purchased, additions and betterments, and property retirements. There are additions and betterments to existing equipment, in addition to new equipment bought. The ledger value of the new equipment purchased during the year was \$6,262,313.

Hon. Mr. DUNNING: Locomotives?

Mr. COOPER: Yes, sir. Betterments, \$746,559; retirements, \$1,172,489; net, \$5,836,383.

Mr. HARRIS: What would betterments mean; would that be rebuilding?

Mr. HENRY: Superheaters, stokers, or improvements of that kind.

Hon. Mr. DUNNING: How do you divide the amounts into what is properly chargeable to operation, and properly chargeable to capital, so far as betterments for locomotives are concerned? Suppose you put a new wheel on a locomotive, what would that be?

Mr. COOPER: That would be Operating Expense.

Hon. Mr. DUNNING: Suppose you put a new tire on an existing wheel?

Mr. COOPER: That would be Expense. There would be additions to locomotives which would be renewed by improved type, and in that case the cost to replace in kind would be Operating Expense, and the additional cost, to replace by the improved type, would be a Betterment.

Hon. Mr. DUNNING: There must be pretty fine distinctions at times?

Hon. Mr. STEVENS: You really get at that in this way: when an engine comes into the shop, after a run, there are certain repairs made to it, a new tire, or something of that character, and that would go to Operation without any question. But if the engine were sent to the central shop for an overhaul, and some betterments were added, then the difference would be fixed, I presume, by the schedule that the foreman of the shop would have to fill out?

Mr. COOPER: That is exactly the situation.

Sir EUGENE FISKE: It means that all betterments go to Capital Expenditure, that is all there is to it?

Mr. COOPER: True.

Mr. HENRY: Other locomotives, \$314,067.83.

Mr. HARRIS: Can you give us the average life of a locomotive?

Mr. HENRY: I would not like to venture an answer on that, Mr. Harris. We have some locomotives in services that have been in existence for probably thirty or forty years, but it is very doubtful if there is much of the original locomotive there. The economic life of a locomotive, and that is perhaps the best way to measure it, I do not believe is in excess of twenty-five years. However, it has a certain salvage value, measured in terms of percentage of the original cost, which might be from ten to fifteen per cent.

Mr. HARRIS: It would be very much swallowed up in replacements?

Mr. HENRY: Oh, yes.

Hon. Mr. DUNNING: Some of those old engines must stand for quite a bit on the books, considering the original cost, plus the capital betterments throughout the year? You must have some old engines that have a pretty high book value?

Mr. HENRY: We do not install many improvements on the older types.

Hon. Mr. DUNNING: You said there would not be much of the original locomotive left?

Mr. HENRY: That all goes to Operating Expenses.

Sir EUGENE Fiset: Is it not a fact that the life of a locomotive depends also on the condition of the rail?

Mr. HENRY: To a certain extent, yes.

Sir EUGENE Fiset: For instance, on the Eastern Lines, where you have all curves and only one main line, the life of your locomotive is practically exhausted in from two to three years?

Mr. HENRY: It is true that the rails wear, and flange wear, is greater, but that is an operating expense. Freight Train Cars, \$6,738,342. Passenger Train Cars, \$5,696,616.40. Motor Equipment of Cars, \$239,869.53. Floating Equipment, \$509,634.70. Work Equipment, \$1,070,351.07. Miscellaneous Expenses, \$29,612.14. The total for equipment is \$20,434,877.59.

Mr. JENKINS: Does that Motor Equipment refer to the Diesel cars?

Mr. COOPER: This Motor Equipment is self propelled cars.

Mr. JENKINS: Not steam cars?

Hon. Mr. DUNNING: When you say, Other Locomotives, in Item 52, do you mean electric locomotives?

Mr. COOPER: Yes, sir.

Sir EUGENE Fiset: Nothing is mentioned, as far as the Eastern Lines is concerned?

Mr. HENRY: The equipment is on a system basis.

Hon. Mr. DUNNING: How do you charge the Eastern Lines with its proper proportion of these accounts, or what charge do you make in order to arrive at the Eastern Lines' results?

Mr. COOPER: So far as new equipment is concerned, it is entered in the account of the Canadian National system. The upkeep of that equipment, including the cost of retirements, is divided between the Canadian National System and the Eastern Lines in the proportion of the locomotive mileage made on the two parts of the system, as to the total mileage made by the equipment.

Sir EUGENE Fiset: I would like to know what it is, with regard to the Eastern Lines?

Mr. COOPER: The freight cars are figured on the basis of the freight car miles, and the passenger cars on the basis of passenger car miles.

Mr. JENKINS: How does the cost compare with the electrically operated cars?

Mr. HENRY: I think Mr. Hungerford could answer that question.

Mr. HUNGERFORD: Do you mean the motor coaches that we are using?

Mr. JENKINS: Down in our province you are operating a coach between Summerside and Charlottetown. Is that more economical than a steam operated car?

Mr. HUNGERFORD: Oh, yes, very much more.

Mr. JENKINS: It is very satisfactory.

Mr. HUNGERFORD: It varies, of course, but the total cost for motor coach service is something between 40 and 60 cents a mile, and for a small steam train it is something over a dollar a mile.

Mr. JENKINS: You do not attempt to make long runs?

Mr. HUNGERFORD: No. On long runs it requires a mail service and express service, which we cannot provide for on that type of equipment.

Hon. Mr. DUNNING: The difference is the difference between 60 cents a mile and a dollar a mile?

Mr. HUNGERFORD: The actual cost of operation on the different runs depends on the schedules, and whether they have to handle trailer, and things of that kind, and the character of the unit itself. Some units are more expensive to operate than others, their capacities may be larger, but the spread is something between 40 and 60 cents a mile, for units of that description, and a dollar a mile, which is the cheapest you can operate the smallest steam train.

Hon. Mr. DUNNING: Go back to the general question of the apportionment of the equipment?

Mr. HUNGERFORD: The interest on the investment in equipment is distributed in this way. Each Corporation is credited with the interest on its ownership of equipment. Some of this interest charge is then distributed back to each corporation, on the mileage basis. They are credited with what they own, on the one hand, and then the entire amount is distributed back to these corporations on the basis of the mileage that is made on the respective corporate lines.

Hon. Mr. STEVENS: That sounds reasonable.

Mr. HUNGERFORD: The incidental maintenance of the equipment is handled in the same way. It is all thrown into a pool, and then charged back to the corporation on the basis of the mileage made.

Sir EUGENE Fiset: Take the different items here, and take the proportion due to the Eastern Lines, and you will see just what we are getting.

Hon. Mr. DUNNING: We will do that. We will take that \$1,279,000, which is for six months on the Eastern Line, and we will double it. We will deduct from the general system the six months of the Eastern Lines which is included in it, and then we will get the proportion of that and compare it with the mileage proportion.

Sir EUGENE Fiset: Will you be willing to give us the exact amount?

Hon. Mr. STEVENS: If you will undertake to pay it, if it is against you.

Hon. Mr. DUNNING: There is a feeling that the Eastern Lines are being starved. It will not take long to calculate this and see how it works out.

Mr. HENRY: It is eight per cent of expenses, and seven per cent of mileage. General: Organization Expenses, \$6,418.56. General Officers and Clerks, \$12,288.17.

Sir EUGENE Fiset: Does that include all salaries?

Mr. HENRY: That includes those which are chargeable to betterments.

Mr. COOPER: It is only the officials or staff who are assigned specifically to construction work. No proportion of the general office salaries is charged to betterments.

Sir EUGENE Fiset: Does that include your Roadmasters' salaries?

Mr. HENRY: No.

Mr. COOPER: This is the superintendents' account.

Mr. HENRY: Law, \$18,960.47. Stationery and Printing, \$6,655.18. Interest during Construction, on the Eastern Lines, a credit of \$7,950.44; for the balance of the system a charge of \$362,232.15. Other Expenses—General, for the Eastern Lines, a credit of \$2,063.87; for the balance of the system, a credit of \$4,148.39. The grand total for the Eastern Lines is \$1,269,097.41; and for the balance of the system, \$43,724,677.16.

Mr. HARRIS: Before you pass that item of \$44,000,000, Mr. Chairman, would it be asking too much of the C.N.R. to give us a statement from 1923 of the capital account items?

Mr. HENRY: In a similar manner?

Mr. HARRIS: The total showing of number 701 for the four years since 1923, together with the retirements, and show, at the same time, the amount charged to Investment in Road and Equipment?

Mr. HENRY: You would like to have it divided between the gross amount and the net amount charged?

Mr. HARRIS: The gross retirements?

Mr. HENRY: Could we do that, Mr. Cooper?

Mr. COOPER: I do not think we could get it, in that detail, for 1923 and 1924; probably we could from 1925 down.

Mr. HARRIS: The previous question I asked was based on this.

Mr. COOPER: You asked us if we used the same distribution. Now you are asking us if we have the gross retirements, and the net. I think both answers were correct, that we used the same distribution for the five years, but we have more detail for the last three years than we had for the first two.

Mr. HENRY: More detail assembled at headquarters. These are made up by regions, and come into headquarters from the different regions. What Mr. Cooper has in mind is having to go back to the regions to get the details to meet your request.

Mr. HARRIS: It would not be included in this statement for 1924, for instance?

Mr. HENRY: You have a similar statement each year, but you are asking for a statement including the gross retirements and the net. Mr. Cooper says that for 1923 and 1924 it is doubtful if we have those figures readily available. To get them, we would have to send out to the regions.

Mr. HARRIS: We can get it for 1925, 1926, and 1927?

Mr. COOPER: We have this similar statement for the five years.

Mr. HARRIS: I understand that, but this statement does not get you anywhere; it does not give you what is on the books now, unless you just take the bald statement of No. 701. It just tells you what is on the books, the grand total.

Hon. Mr. DUNNING: That is the grand total for all time.

Mr. HARRIS: We do not know what is on the books for any one of these particular items.

Mr. COOPER: I could not give you that, Mr. Harris; I could not divide our account No. 701 up by this classification. Our account No. 701 goes back to 1850.

Mr. HARRIS: I am not asking you to divide it for more than the five-year period.

Mr. COOPER: I can give you that for the five years.

Mr. HARRIS: That is, the net?

Mr. COOPER: Yes, the net.

Mr. HARRIS: Can you give us the gross?

Mr. COOPER: The gross and net for three years.

Mr. HARRIS: And the retirements?

Hon. Mr. STEVENS: There is a very interesting question that I would like to ask, arising out of this item No. 701. We have the figure here of \$1,914,939,-182. This represents Investment in Road and Equipment. It would appear from the analysis that we have just pursued, that the accounting staff is dividing the charges in a very reasonable way. We will assume that has gone on during recent years, and will be continued. This figure represents, as the Chief Accountant now intimates, an accumulation of accounts for fifty years. How

are we, as shareholders of this corporation, to judge of the real value of that figure? Is there any suggestion from the Company's officers of what merit that figure really has?—

Mr. HENRY: It depends entirely on the basis upon which you are going to judge the value, Mr. Stevens, whether it will be judged by what it would cost to reproduce the property at present day prices, or otherwise.

Hon. Mr. STEVENS: The reproduction value, or replacement value, is a very fair value to you.

Mr. HENRY: On the other hand, the price scale is very much higher now, as you know, compared to what it was before the war.

Hon. Mr. DUNNING: I suggested this to Mr. Henry some time ago. After all, it is all theoretical. We are just trying to get some approximation. I asked the question as to the relative investment in road and equipment per mile on roads that are comparable with this one. The Canadian Pacific Railway of course, is not comparable, but Class A. roads in the United States are pretty closely comparable. If you take a Class A. road that operates under Northern United States conditions, and deal with it from that point of view.

Mr. JENKINS: The New York Central, for instance?

Mr. HENRY: The roads that are in thickly populated terminal districts have higher expenses.

Hon. Mr. STEVENS: Why is the Canadian Pacific not comparable? I am asking that question because you make the suggestion. Why would not the Canadian Pacific be more comparable than any of the American roads?

Hon. Mr. DUNNING: The Interstate Commerce Commission lay down a system in their classification. But the Canadian Pacific have made changes in their system of accounting, and also changes in their usages. —

Hon. Mr. STEVENS: You mean that they have not got the facilities to give you the figures?

Hon. Mr. DUNNING: No. During the past, the Canadian Pacific have put into the road revenues not charged in their investment account. So far as investment in road and equipment is concerned, there is not a railway on the North American Continent that compares, in that regard with the Canadian Pacific. Is that right?

Mr. HENRY: Very few of them, at any rate.

Hon. Mr. DUNNING: They have worked it out in a different way. They have put money back into the road continuously, but not into the investment account.

Hon. Mr. STEVENS: Supposing you took half a dozen leading American roads, and compared them with this, how do they run? Do they show a fairly uniform comparison?

Mr. HENRY: Yes, in various sections they do. They run anywhere from \$60,000 to \$75,000 or \$80,000 a track mile. But you have to make another calculation, you must reduce it to an equivalent basis. The ordinary road mile is sometime 1, 2, 3, or 4 tracks, and you have to consider all these different elements to get it down to a reasonable basis. For what we call "equivalent track mile", based upon that, it would probably be from \$60,000 to \$80,000.

Hon. Mr. STEVENS: A double track line, for instance, would have a larger proportion of equipment than a single track line? It is not just merely a difference in mileage?

Mr. HENRY: I am talking about the road only.

Hon. Mr. STEVENS: There would be a larger percentage of equipment for five hundred miles of double track, than there would for one thousand miles of single track.

Mr. HENRY: The figures which I gave do not include equipment. On the question of equipment, traffic, and other things, you have to consider the density of traffic to decide whether you have enough equipment.

Hon. Mr. STEVENS: How are we to estimate the value of the road? This figure of \$1,900,000,000 might include a lot of stuff that in the next ten or twenty years might have to be written off which would cause that figure to shrink a lot. Or would you say that this figure will carry itself along fairly uniform?

Mr. HENRY: A good deal of that represents a pretty substantial permanent investment, that will be of considerable value later on. Whether it is too high or too low, from the standpoint of its ability to produce earnings—which, I imagine, is the point you have in mind—is a question I am not prepared to answer.

Hon. Mr. STEVENS: Let me get at it in another way. We are getting to the place now where we expect that this system will earn something on its investment, other than its interest on the obligations to the public. Now, it is not fair to ask the system to pay dividends on an abnormal valuation of these assets, although we may put the money in. It would be better for this country to write them down to a fair valuation, and then try to bring the earnings of the company up to that point, rather than to carry along a lot of dead assets. I am not saying that they are dead, but if they are they should be eliminated.

Hon. Mr. DUNNING: I am very glad to hear you express yourself in that way.

Hon. Mr. STEVENS: That has been my opinion for many years. I think that great care should be taken not to write down these assets recklessly. I do not advocate anything of that character, but I think we ought to work out some method of ascertaining the true value of these items.

Mr. HENRY: If it were in the United States, the equitable way to get at it would be to compare it with similar investments in roads of about the same traffic under the same conditions. If a road has a higher investment than the average, the chances are that it would not earn anything more than the average. The Interstate Commerce Commission are endeavoring to bring about that same thing. They have divided the country into regions, and they are endeavoring to bring about a scheme, the result of which will be that all roads in a certain territory will, on the average, earn five and a half or six per cent upon a reasonable investment.

Hon. Mr. STEVENS: Would there be an insuperable difficulty in asking that such a comparison be made, and tabled?

Hon. Mr. DUNNING: It is the same thing that I have been trying to get at for months, but there are too many factors to work out to get it very quickly.

Hon. Mr. STEVENS: You join me, and we will see what he has to say.

Hon. Mr. DUNNING: The Government is very much interested in getting that information, for precisely the same motive which you have stated. They want to see if some practical way cannot be evolved of getting this picture of our Canadian National situation before the public in an understandable way. We do not want to rob Peter to pay Paul, but to get it on a basis which is defensible from a business point of view. It is a problem of great complexity.

Hon. Mr. STEVENS: I have no doubt of that, because one has merely to look at these accounts to appreciate the complexity of the whole matter.

Hon. Mr. DUNNING: If you had the accounts from the 97 companies that are involved, and their corporate relations one with the other, then you would appreciate what it is necessary to do to accomplish that, or to determine what the end is to be. That is, we could very easily gather, in the course of a few months, the material necessary to enable us to deal with the item that we are now looking at, No. 701, and to say that that item should be so and so, and it

should not be what it is. But when you come to the problem of distributing any reduction that might be made, having regard to the inter-corporate relations which we inherited when we took over these companies, I can assure you it is a very difficult matter, but it is one which we should continue to strive to accomplish. Just to take one illustration, Mr. Stevens, without mentioning the company; here is a company which has a bond issue outstanding—one of these associated companies—which represents a theoretical part of this investment. These bonds are not guaranteed by the Government, but they are guaranteed by another one of the constituent companies comprising this aggregation. In turn, certain obligations of the second company have a relationship, from the point of view of guarantee, to the results of a third company. Now, if you agree that holus bolus, regardless of Government obligations, we will pay everything, why, then, you can commence to deal with it. But I doubt very much if you, or any other business man, would agree to consider it on that principle. That is, you would want to weigh every obligation, and see just what we really were entitled to pay.

Hon. Mr. STEVENS: I appreciate all that the Minister says, but I cannot see that that applies to the request which I made regarding item No. 701.

Hon. Mr. DUNNING: If you forget that item No. 701 is a consolidation then, of course, you are right, but the moment you recognize that item 701 represents a similar account in just short of 100 companies——

Hon. Mr. STEVENS: There is no other system but what that would apply to, in a greater or lesser degree.

Hon. Mr. DUNNING: But the Government would not be as foster father, and there would not be the finances of the company to obligate it.

The CHAIRMAN: Mr. Henry has the C.P.R.'s statement here, and he will read you a few items.

Mr. HENRY: Property Investment, Including Railway Rolling Stock Equipment, and Lake and River Steamers, at December 31st, 1927, according to their 1927 report, is \$686,387,126.

Hon. Mr. DUNNING: That is a capital charge?

Mr. HENRY: That is a capital charge that they carry in their direct account.

Hon. Mr. DUNNING: Everybody knows that the actual investment in the C.P.R. roadbed, and steamers, is away in excess of that.

Mr. HARRIS: The Minister referred to Class A. companies in the United States, running in the northern zone. Might I ask if the same accounting system is followed by our road as is followed by the Class A. roads?

Mr. HENRY: Yes.

Mr. HARRIS: How many Class A. roads are working off depreciation, and setting up a sinking fund?

Mr. HENRY: I think all of them, from 1907, have charged depreciation, or accounted for depreciation on equipment. Some of them have set up depreciation accounts on certain roadway items, but not very many.

Hon. Mr. DUNNING: Take the Grand Trunk Western, as an illustration, because it comes under the Interstate Commerce Commission; what do you do with the Grand Trunk Western?

Mr. COOPER: We accrue depreciation on the equipment.

Hon. Mr. DUNNING: According to the standard set by the I.C.C.?

Mr. COOPER: The Commission do not set a standard. While it is compulsory to take depreciation, the accounting effect on the carrier, which is allowed to choose its own rate, is somewhat nullified. When a road sets up an equivalent of half of one per cent per annum, it is complying with the regulation, but it is not getting anywhere.

Mr. HARRIS: How many use half of one per cent?

Mr. COOPER: I took that as an extreme case. Until three or four years ago, we only had two per cent ourselves.

Mr. HARRIS: What is the other extreme?

Mr. COOPER: A road that wanted to retain its profits, and put them in reserve, would go up to six per cent.

Hon. Mr. DUNNING: The Great Northern has done that.

Mr. COOPER: I do not know the percentages of the different companies. The Commission, by an Act of Congress in 1920, were instructed to go into this question of depreciation. After seven years of study they have not yet reached the point where they can issue instructions as to what the carriers should do. They had a big body of experts working on that, and they have had hearing after hearing. It is probably the most contentious question, in the railway accounting sphere, to-day. They issued an order last year requiring the carriers to set up depreciation on roadway property, as well as on equipment, but they immediately had to suspend the going into effect of that order.

Hon. Mr. STEVENS: I wish to say that I think the system followed by Mr. Cooper is a very sound one, if we were certain of the merits or the values lying behind this \$1,900,000,000. That is the chief weak spot I can see. What merit is there in writing off the full cost of these, if you do not know what has been done for forty years out of fifty? To my mind, that nullifies the whole process. If you started at a given time with new equipment, and carried that statement right through, then I would be inclined to think it was just as good as if you carried the system of writing off all depreciation. But, to my mind, it is more or less vitiated in the absence of definite information about the real value of this \$1,900,000,000.

Mr. HARRIS: That would be quite right for a period of, say, fifty years, but when you are starting with a lot of new equipment, such as we have had in the last five years with this particular road, then the observation of my hon. friend does not hold.

Hon. Mr. STEVENS: I am not inclined to enter into any controversy on that point.

Hon. Mr. DUNNING: You both get back to the same point.

Mr. HARRIS: In the meantime we are going up and down.

Hon. Mr. DUNNING: We are on the switchback for a time.

The CHAIRMAN: Your contention, Mr. Stevens, is that there must be a lot of equipment on hand, materials, buildings, and bridges, which have been charged up at their actual cost and on which there has been no depreciation charged at all.

Hon. Mr. STEVENS: I am not making any assertion, I simply do not know.

Hon. Mr. DUNNING: It goes back into the years of corporate history when the investment in road and equipment, under No. 701, was made in the old way.

Hon. Mr. STEVENS: I have had the idea for some years that the best thing to do would be to make a physical appraisal of the whole system.

Hon. Mr. DUNNING: You are looking rather at the symptom, and I am looking at the disease, that is the only difference between us. This problem is being wrestled with, but it will require a great deal of work and study. We are all the time discovering things in connection with the early history of the Grand Trunk, which we did not know before. One or two inconsistencies have come to light in the last year, which have affected some particular sections of this aggregation of companies, and which we tried to handle to the advantage of the system, when we discovered them.

The CHAIRMAN: I do not think it is necessary to go into page 22. On page 23 we have simply a detailed statement of the replacements and new purchases.

Hon. Mr. STEVENS: As far as the locomotives are concerned, that will be dealt with when we receive this supplementary statement.

Mr. HENRY: Mr. Harris only asked for account No. 701.

Mr. HARRIS: I asked for the items included on page 21, from 1 to 77.

Hon. Mr. DUNNING: Did you understand that, Mr. Cooper?

Mr. COOPER: I understand I had to give the net for five years, and the gross and net for three years.

Hon. Mr. DUNNING: Could you do it on the individual items, as well as on the total?

Mr. COOPER: Yes.

Hon. Mr. DUNNING: Tell Mr. Harris definitely what you can do.

Mr. COOPER: I am not quite sure whether we can do it just as Mr. Harris wants it. We have a restatement of these investment expenditures, under what we call the Engineering Classification, and which gives us the gross and the net. It deals with the same total figure, but it goes into a little more detail. It does not classify them exactly under the same heading.

Mr. HARRIS: But from one year to the other they would be comparable.

The CHAIRMAN: Let us turn now to page 25, "Loans from Dominion of Canada".

Hon. Mr. DUNNING: You wanted to go into the outstanding bonds, Mr. Stevens, the other day?

Hon. Mr. STEVENS: Yes.

Hon. Mr. DUNNING: Is it necessary to read all these figures?

Hon. Mr. STEVENS: I do not know, not as far as I am concerned, but I am not speaking for the rest of the Committee. If they want to go into them, I have no objection.

The CHAIRMAN: If anybody wants to ask questions, I think in that way we would get through it more quickly than by going through all these different items.

Hon. Mr. STEVENS: My difficulty is that I had a question on these original accounts, which are a little different from the printed ones, but I think I can probably bring out my query as to that. You will probably permit a question, Mr. Chairman; it is not quite in regard to these Loans, but what I was going to ask Mr. Cooper or Mr. Henry was this; there are retirements in connection with the Public Debt, set forth in this statement of accounts.

The CHAIRMAN: What page is that on, Mr. Stevens?

Hon. Mr. STEVENS: The page is not numbered.

Mr. COOPER: It is in the Foreword of the report.

Hon. Mr. STEVENS: Setting forth the new issues and the retirements.

Mr. COOPER: They are also shown on page 7 of the printed report.

Hon. Mr. STEVENS: That is all right.

Hon. Mr. DUNNING: We do not need to go into the other one, then.

Hon. Mr. STEVENS: It is in the preliminary statement of Sir Henry Thornton; I presume it has really to do with the bonded indebtedness. There is an item, Equipment Trust Certificates of various issues, \$5,291,400. Will Mr. Cooper please explain that item?

Mr. COOPER: These are instalments of certain equipment issues which fell due for retirement during 1927, and were paid off.

Hon. Mr. STEVENS: As I understand it, the Equipment Trust Certificates are sold in connection with the purchase of equipment?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And, on each payment you pay interest and retire a certain amount of the principal?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: It amortizes itself over a certain period of time?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: The query I really want to make is this; were these payments the normal payments within the life of the equipment?

Mr. COOPER: Yes, shorter than the life of the equipment.

Mr. HENRY: They are made for varying periods, fifteen or twenty years, and one-fifth is paid each year.

Hon. Mr. STEVENS: Do you think this is the proper place to bring them in and show them? I thought they would be a sort of self-sustaining thing, a part of the separate obligations and not a part of the general obligations of the Company.

Mr. HENRY: You think they should be retired out of revenue?

Hon. Mr. STEVENS: Yes.

Mr. HENRY: They are not, under our system.

Hon. Mr. STEVENS: Why should they not be?

Mr. HENRY: They do not relate to the life of the equipment particularly; it may be a fifteen year series. That would mean that the whole of the capital would be retired in fifteen annual payments, whereas the life of the equipment might be thirty years.

Hon. Mr. STEVENS: I will admit that I am a bit ignorant of this, but as I understand it, we buy a locomotive, we issue a Certificate, a Bond, or an Equipment Trust Certificate. I do not know what length it is, but the period of these certificates is based upon the general expectation of the prospective life of that implement, whatever it is.

Mr. HENRY: No. There is a very substantial margin of safety.

Hon. Mr. STEVENS: Very good.

Mr. HENRY: The margin of safety is probably not over sixty per cent, and even then you have a 25 per cent cash investment over and above it.

Hon. Mr. STEVENS: My point is, that the genius of the whole Equipment Trust Certificate is that over years of experience certain terms have been accepted as reasonable for the life of that equipment, plus a margin of safety. Would you not agree with that?

Mr. HENRY: Yes. But that has not got anything to do with the operating expense at all. The operating expense is designed on a different basis; one is the depreciation, the other is a sinking fund for the purpose of retiring the bond. But the bond itself may not and does not as a rule have any relation to the life at all.

Hon. Mr. STEVENS: Should not that bond, however, be retired out of the earnings of the Company?

Mr. HENRY: I do not think it should, as a general rule. That rule should only apply in a case where the two of them synchronize.

Hon. Mr. STEVENS: And if they do not synchronize with that portion, we will say 60 per cent, if you like, of the life of the equipment, the margin of safety would be 40; 40 is the only part which should be paid out of the renewal or a further issue of the bonds?

Mr. HENRY: The answer is that it is not done that way. The reason for that is, because one is a financial transaction and the other is an operating transaction. If you could relate what your issue to the public is, with the life, there might be something in it, but it is not done that way. That is as good an answer as I can give.

Hon. Mr. STEVENS: Here is the point. You made an issue of \$83,896,000 of new bonds?

Mr. HENRY: So far as Equipment was concerned, last year we issued—

Hon. Mr. STEVENS: \$15,000,000 Equipment Trust, Series J. Bonds; \$15,000,000 is here, part of which, \$5,291,000, was used to retire existing Equipment Bonds?

Mr. HENRY: \$5,291,000 of those were—that was the capital—they were used to retire the payments on account of capital, the annual payments on account of principal of these Equipment Trusts.

Hon. Mr. DUNNING: We could not use it up. Take into account that when equipment retires from service it is all written off; if you take the picture in that way, you can see it.

Major BELL: You take your capital charge for Equipment. When you buy it, instead of working off \$5,000,000 every year for fifteen years, pay it all at once and then retire your equipment in the way we do it.

Hon. Mr. STEVENS: But you are retiring this \$5,291,000 within a year after you issue the \$15,000,000.

Major BELL: Instead of paying the whole thing at once, we spread it over fifteen years, which is the usual way. It used to be twenty years. Say we buy \$75,000,000 worth of Equipment, it would be spread over a term of years at \$5,000,000 a year. Of course the whole \$75,000,000 could be paid at once.

Mr. HENRY: That is met out of the general issues guaranteed by the government but not specifically applicable to that equipment.

Hon. Mr. STEVENS: In other words, all your issue for Equipment Bonds goes for new Equipment?

Mr. HENRY: Absolutely.

Hon. Mr. STEVENS: This \$5,291,000 is not taken out of the \$65,000,000?

Mr. HENRY: Yes, indeed, it comes out of the \$65,000,000. But it is not a specific Equipment Issue.

Hon. Mr. STEVENS: Let me ask this question. Can Mr. Cooper tell me if this is the system followed by the American Roads; do they follow this classification of accounts?

Mr. COOPER: Without exception, Mr. Stevens.

Major BELL: It is known as the Philadelphia plan.

Hon. Mr. STEVENS: And this is following the Philadelphia plan?

Major BELL: It is following the Philadelphia plan, which was inaugurated over there.

Hon. Mr. DUNNING: If the retirement system were not followed, it would ball up the whole works.

Mr. COOPER: Yes.

Hon. Mr. DUNNING: If writing off the equipment at the time of retirement were not followed, it would throw the whole thing out of gear.

The CHAIRMAN: Are there any other items arising out of page 25?

Hon. Mr. STEVENS: There was another question, but it has become stale in my mind. Go ahead.

The CHAIRMAN: You had a couple of questions you wanted to put, when we came to the Funded Debt?

Hon. Mr. STEVENS: You may go ahead, as far as I am concerned.

The CHAIRMAN: Now let us turn to page 26.

Hon. Mr. STEVENS: This thing is so complicated that unless one sticks to it he cannot follow it. Three weeks ago, when these statements were first given to us, I checked them over but have not looked at them since. There is an item here somewhere of an amount due of \$40,448,000, interest on public debt.

The CHAIRMAN: It is on the last half of page 27, Interest Accrued 1927.

Sir EUGENE Fiset: It is in the second column.

Mr. HENRY: That appears in the Income Account, page 15, item 546.

Hon. Mr. DUNNING: It is interest accrued in 1927.

Mr. HENRY: That item represents the amount of interest accrued in the accounts, that is, interest on funded debt accrued in the accounts during 1927.

Sir EUGENE Fiset: These are the amounts due to the public?

Mr. HENRY: Amounts due to the public.

Mr. JELLIFF: How much of that has been paid out of the earnings of the Company to the public?

Mr. COOPER: In the 1927 calendar year, we were short of earning that full amount, \$2,182,373.

Mr. JELLIFF: Was that in 1926?

Mr. COOPER: 1927.

Hon. Mr. DUNNING: What did you have in excess of the retirements the previous year?

Mr. COOPER: \$4,556,639. Taking the two years together, we had an excess of \$2,270,000 over and above the full interest due to the public, and if you take the two government fiscal years, March, 1927, and March, 1928, in both years we earned the full interest due the public.

Mr. JELLIFF: How much of that will fall due this coming year?

Mr. COOPER: I do not know.

Mr. JELLIFF: Can you figure out the items here?

Hon. Mr. DUNNING: At the time of maturity, tell us that. As I remember it, we have not very much this year. There is an issue of Equipments there, Equipment Trust Series.

Mr. COOPER: In the budget of 1928, we are asking for \$9,634,755.

Sir EUGENE Fiset: What is the amount?

Mr. COOPER: \$9,634,000.

Mr. JELLIFF: That is, to retire a portion of the funded debt falling due.

Mr. COOPER: Payments on Equipment Trust Notes and other capital debt.

Mr. JENKINS: These items guaranteed by the Province of Manitoba, do you retire those, and those guaranteed by other provinces?

Mr. COOPER: Probably provision will be made in the 1929 budget to retire them, but that does not come up this year.

Mr. JENKINS: Or there may be a reissue.

Mr. COOPER: Yes.

Mr. JENKINS: They are guaranteed by the different provinces, but are payable by the Dominion.

Mr. COOPER: I do not know about the Dominion guarantee.

Mr. JENKINS: Will you retire those as they come due in 1929 and 1930?

Mr. COOPER: I would say we would.

Hon. Mr. DUNNING: Each province has as security for its guarantee a mortgage on the road.

Mr. JENKINS: You treat these just as they come due?

Hon. Mr. DUNNING: It will be a question of policy of the government of the day, when they mature. I cannot conceive of any government allowing that piece of road to go for the amount against it.

Hon. Mr. STEVENS: Have you ever been in the position of calling up a province to make good its guarantee?

Hon. Mr. DUNNING: I was in the position of being called upon by Major Bell, when I was Provincial Treasurer of Saskatchewan. I did not pay him, I paid the bondholders. I proceeded to take advantage, as any Provincial Treasurer would, of the terms of the Trust Deed. The Dominion Government of that day were aware of the terms of the Trust Deed. They allowed me to pay three payments, but did not allow me to pay the fourth one, because that would have put me in possession of the road. After that they allowed the payments to lapse, and then let me pay another three. But that is all over now.

Hon. Mr. STEVENS: In regard to the guarantee of the British Columbia section, has the interest been earned upon that, I mean, has the interest been paid out of the earnings of that section?

Mr. COOPER: It is not segregated.

Hon. Mr. DUNNING: There is no segregation.

Hon. Mr. STEVENS: I do not suppose there is any need of segregation, when you adopt the policy of paying, but suppose you follow it to the extreme and say you will let the province take this, you will then have to segregate it, to determine what is past due.

Major BELL: Do you speak of the British Columbia line now, Mr. Stevens?

Hon. Mr. STEVENS: Yes.

Major BELL: It does not earn the interest.

Hon. Mr. STEVENS: Is the interest guaranteed by the Province of British Columbia?

Major BELL: That is guaranteed by the Province of British Columbia.

Hon. Mr. STEVENS: They are more or less in default?

Major BELL: We could put them in default.

Mr. JENKINS: But you would have to give them credit for the business originating on their line, would you not?

Major BELL: There would be a long legal fight over it.

Hon. Mr. DUNNING: If we ceased paying them, British Columbia would have to pay the bondholders, and under the Trust Deed the British Columbia government would take possession of the road. What we would do then would depend upon negotiations.

Hon. Mr. STEVENS: It has not earned interest, on that section?

Hon. Mr. DUNNING: I do not think anybody has, and I do not think you do.

Hon. Mr. STEVENS: I do not think so, either, but I should think within the last two years it would be approaching that condition, with the increase of traffic.

Major BELL: The benefit is increased traffic, increased business, which they would not have if they took it over.

Mr. JENKINS: It would break up the road.

The CHAIRMAN: I do not think we need to take up page 28; that is, Statistics of Rail-Line Operation. The same with page 29.

Hon. Mr. DUNNING: These are all simply informative statements of tonnage and so forth—I do not think there is anything there—and a schedule of the company's present situation.

I think that pretty well completes the accounts, Mr. Chairman.

The CHAIRMAN: The only questions we have to determine now are the questions Mr. Harris asked.

Hon. Mr. DUNNING: There was a question asked the other day, upon which you are obtaining information, Mr. Cooper. That was not your question, Mr. Harris?

Mr. HARRIS: Yes.

Hon. Mr. DUNNING: The Toronto business, Toronto and Scarborough. Are there any other questions, Mr. Chairman, relating to the accounts, or anything that we should raise, to give the staff time to get it?

The CHAIRMAN: I do not remember any others than those I have mentioned.

Sir EUGENE Fiset: We might as well adopt the report, and proceed with the evidence as to the Estimates.

The CHAIRMAN: If you are satisfied, will you move the adoption of it?

Sir EUGENE Fiset: I will move that the report be adopted.

Hon. Mr. STEVENS: Just one moment, Mr. Chairman. I think probably we might as well wait until we get the answers to these questions, before we adopt the report. There is no rush about it.

Hon. Mr. DUNNING: No rush at all.

The CHAIRMAN: Mr. Harris' questions will take some time.

Mr. HARRIS: I understand they will not take much time.

The CHAIRMAN: Can you have the information ready by Tuesday, Mr. Cooper?

Mr. COOPER: I think so.

Hon. Mr. DUNNING: I move, Mr. Chairman, that we adjourn until Tuesday next.

The Committee adjourned until Tuesday, April 24, 1928.

SESSION 1928
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5—APRIL 24, 1928

WITNESS:

Sir Henry Thornton, President, C. N. Railways,

Assisted by: Mr. Henry, Bureau of Economics; Mr. Cooper, General Auditor; Major Bell, Director, C. N. Railways; Mr. Doherty, Traffic Manager, Canadian Government Merchant Marine, and others.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

TUESDAY, April 24, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, opened proceedings at 11 o'clock a.m., this date, Mr. Goodison, the Chairman, presiding.

Members of the Committee present:

Messieurs: Bell (St. Antoine), Cantley, Chaplin (Hon. J. D.), Stewart (Leeds), Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens (Hon. H. H.)—(15).

Sir Henry Thornton, President; Mr. Hungerford, Major Bell, Mr. Robb, Mr. Ruel, Vice-Presidents; Mr. R. A. C. Henry, Mr. Cooper, Mr. Doherty, and numerous other officials of the C.N. Railways and Merchant Marine, were in attendance.

On opening the meeting the Chairman stated that questions which had been asked at the previous meeting, the answers to the same had now been prepared and would then be submitted to the meeting. Mr. Henry was asked to read the answers prepared, and the same were incorporated in the record of proceedings, as follows:—

1. Balance Sheet of Central Vermont Railroad as of the approximate date of the flood.

2. Statement of the food conditions and the damage which ensued therefrom.

3. Statement of the amount of money included in items 2 and 3, page 21 of the annual report under the caption "Roadway" which related to land and grading during 1927, charged to this account, in respect to Toronto and the Township of Scarboro, but not included in the terminals.

4. Memorandum re Equipment Trusts, and the relation of same to the Accounting practice with respect to the equipment retirements and the charges to operating expenses.

Some further discussion on Canadian National Railways and equipment.

Annual Report of the Government Merchant Marine taken up. Assets and Liabilities and Capital discussed; Operating Account and Deficit Account discussed at some length.

Report Adopted.

It was decided by the Committee that a general report would be submitted to the House after all matters had been considered.

Committee adjourned to meet again to-morrow—Wednesday—at 11 o'clock a.m.

MINUTES OF EVIDENCE

COMMITTEE ROOM 429,
HOUSE OF COMMONS,
TUESDAY, April 24, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock A.M., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: Gentlemen, we will proceed. In the first place, there were some questions asked to which answers were to be given this morning.

Sir HENRY THORNTON: Mr. Henry, will you give the answers to the questions which were asked?

Mr. HENRY: Mr. Harris asked for the balance sheet of the Central Vermont Railroad as of the approximate date of the flood. I present herewith the balance sheet.

CENTRAL VERMONT RAILWAY COMPANY

BALANCE SHEET AT OCTOBER 31ST, 1927

Assets			Liabilities		
		\$ cts.			\$ cts.
Investments -			Stock—		
701 Investment in Road Equipment.....	22,836,402 93	751 Capital Stock.....	3,000,000 00		
702 Improvements on Leased Railway Property.....	842,103 87	Government Grants—			
705 Miscellaneous Physical Property.....	26,553 50	754 Grants in Aid of Construction.....	58,560 00		
706 Investments in Affiliated Companies.....	333,225 51	Long Term Debt—			
Unpledged Pledged		755 Funded Debt Unmatured...	13,893,165 25		
"A" Stocks...\$ 1,400 00 \$141,516 92		757 Non-Negotiable Debt to Affiliated Companies.....	20,411,319 07		
"B" Bonds.....	1 00	"A" Notes.....\$ 8,041,905 52			
"D" Advances. 190,307 59		"B" Open Accounts.....	12,383,139 31		
707 Other Investments.....	75,101 00	"C" C.N.R. Current Advance Account.....	13,725 76		
"A" Stocks.....	101 00	Total Long Term Debt.....	34,304,484 32		
"B" Bonds.....	75,000 00				
Total Investments.....	24,113,386 81	Current Liabilities—			
Current Assets—		759 Traffic and Car Service Balances Payable.....	501,019 06		
708 Cash.....	423,713 92	760 Audited Accounts and Wages Payable.....	447,964 25		
711 Special Deposits.....	242,138 00	761 Miscellaneous Accounts Payable.....	4,015 70		
712 Loans and Bills Receivable.....	6,116 56	762 Interest Matured Unpaid.....	247,031 76		
713 Traffic and Car-Service Balances Receivable.....	453,719 31	764 Funded Debt Matured Unpaid.....	3,200 00		
714 Net Balance Receivable from Agents and Conductors.....	105,532 15	766 Unmatured Interest Accrued.....	199,070 77		
715 Miscellaneous Accounts Receivable.....	233,028 97	767 Unmatured Rents Accrued.....	916 66		
716 Material and Supplies.....	788,908 11	768 Other Current Liabilities.....	904 10		
717 Interest and Dividends Receivable.....	1,250 00				
719 Other Current Assets.....	78,948 77	Total Current Liabilities.....	1,404,122 30		
Total Current Assets.....	2,333,355 79	Deferred Liabilities—			
Deferred Assets—		770 Other Deferred Liabilities.....	225,572 87		
720 Working Fund Advances.....	3,827 59	Unadjusted Credits—			
721 Insurance and Other Funds.....	9,393 76	771 Tax Liability.....	102,824 08		
722 Other Deferred Assets.....	8,226,829 16	775 Accrued Depreciation—Road.....	226,827 45		
Total Deferred Assets.....	8,240,050 51	776 Equipment.....	843,327 54		
Unadjusted Debits—		778 Other Unadjusted Credits.....	248,740 40		
723 Rents and Insurance Premiums paid in Advance.....	5,405 48	Total Unadjusted Credits.....	1,421,719 47		
725 Discount on Funded Debt.....	38,243 38	Corporate Surplus—			
727 Other Unadjusted Debits.....	124,924 86	779 Additions to Property through Income and Surplus.....	48,394 21		
Total Unadjusted Debits.....	168,573 72	784 Profit and Loss—Debit Balance.....	5,607,486 34		
Grand Total.....	34,855,366 83	Total Corporate Surplus.....	5,559,092 13		
		Grand Total.....	34,855,366 83		

SIR HENRY THORNTON: Mr. Harris also asked for a statement of the flood conditions and the damage which ensued therefrom. I will file that statement.

The Central Vermont Railway is a North and South Line, extending from St. Johns, Que., and Rouses Point, N.Y., where it joins the Canadian National Railways, to New London, Conn., together with several Branch Lines with a total mileage of 433.3 miles of roadway.

It is composed of two Divisions, viz., the Northern and Southern. The Northern Division main line extends from St. Johns and Rouses Point through St. Albans, Essex Junction, Montpelier Junction, White River Junction to Windsor a distance of 173 miles, where it connects with the Boston and Maine Railroad. From this main line there are branch lines running generally East and West out of St. Albans, Essex Junction, and East out of Montpelier Junction.

The Southern Division starts at Brattleboro, 49 miles South of Windsor, connection being made with the Northern Division by running rights over the Boston and Maine between these points. The main line of this division runs through Millers Falls, Palmer and Norwich to New London where it connects with the New York, New Haven and Hartford Railroad, and steamers to New York. There is also one branch line from Brattleboro to the West.

The Northern Division runs through the Green Mountains from near St. Albans to its Southerly limit at Windsor, and as is usual in mountainous territory the railway tracks follow the valleys of the main water courses. From Burlington on Lake Champlain the railway follows the Winooski River for a distance of forty miles to Montpelier Junction, the Dog River a further distance of fifteen miles to the divide, and from this point South down the valley of the White River forty-six miles to White River Junction, where the White River flows into the Connecticut River. There are numerous small streams and feeders for these rivers, and many power dams.

Commencing in the evening of Wednesday November 2nd there was a continuous rail fall over this part of the country, and particularly heavy in the mountains adjacent to the railway. The Weather Bureau Reports show that in the vicinity of the Central Vermont Railway from 9.00 p.m. November 2nd to 12.00 noon November 4th, a total of 39 hours during which 8.6 inches of rain fell. The greatest rain was during the first 30 hours and the heaviest fall from 3.00 to 4.00 p.m. November 3rd when 0.62 inches of rain fell.

The effect of such a tremendous volume of water in the mountains can be readily imagined; the precipitous nature of the country induced a rapid fall from the hills into the valleys, where the tributary streams and feeders soon gorged the main rivers, causing an overflow from their banks into the valleys which soon became raging torrents running about twenty-five feet above the normal level. Increased by dam failures letting loose large volumes of impounded waters to add to the main fall, the force of the torrents carried all obstructions before it, and in some cases washing down the natural hills and widening ravines. Buildings in the valleys, highway and highway bridges, railway bridges, embankments and fills, telephone and telegraph lines were entirely swept away or damaged in the mad rush of waters, and where several converging streams joined the main water course as at Montpelier and Waterbury the lower parts of the towns were submerged. In many cases the most severe damage was caused by wooden highway bridges and buildings being

carried down by the streams to the steel railway bridges where a dam was formed and blocked the water so that the added pressure swept the railway bridge and approach away.

Commencing at the North end and where the Central Vermont joins the Canadian National Lines and proceeding South the following brief summary of the damage may be of interest:—

MAIN LINES

St. Johns to St. Albans, 42.00 miles; embankment was badly washed out back of North and South abutments of bridge just North of St. Albans, repairs made and line open for traffic November 7th.

St. Albans to Essex Junction, 24.00 miles; no serious damage and line open November 5th.

Essex Junction to Williston, 4.00 miles; only minor repairs required and line open November 6th.

Williston to White River Junction, 90.00 miles; this section of the main line received the full force of the storm and was badly wrecked, steel bridges carried off masonry and washed down stream and broken up, piers and abutments damaged, torn down or undermined, embankments across main river and tributary valleys damaged or washed away, side hill cuts undermined and carried away, of which the following is a partial list:—

Seven steel bridges completely wrecked, will require about 1,800 linear feet of temporary trestle to pass trains. Nine bridges were partially wrecked and will require temporary work. Twenty-four other bridges with minor damage and probable undermining of piers and abutments. Forty-eight bridges in all on which more or less repairs will have to be made.

The embankments across valleys and streams were more or less damaged and washed out the most serious being adjacent to the bridges and on side hills where the rush of water was augmented by the failure of dams across streams letting loose large volumes of water against the embankments. Preliminary survey of the damage to embankments shows that of a total of 90 miles on this section; 69.7 miles good or only slightly damaged, 4.2 miles more damaged but passable for ballast trains, 6.6 miles will require cribbing up to five feet so that the track can be refilled and lifted, 5.8 miles will require heavy cribbing or trestle bents on sills, 1.1 miles of pile trestle required to pass over deep holes, and 1.4 miles of banks have fallen into the river and line will have to be diverted and rebuilt, and 0.6 miles of bridges entirely destroyed or badly damaged. The most serious loss of embankments is between Williston and Montpelier Junction a distance of 28 miles.

From White River Junction to Windsor, 14.00 miles; roadbed was slightly washed in numerous places and repairs were made and line restored shortly after the disaster. At Windsor the Boston and Maine Railroad is used South to Brattleboro a distance of 49 miles where the Southern Division of the Central Vermont commences and runs south a distance of 121 miles to New London. Very little damage occurred on this part of the line, and this was confined to the Northern end between Brattleboro and East Northfield a distance of ten miles where only slight damage to roadbed was reported and speedily repaired.

BRANCH LINES

St. Albans to Richford, 27.48 miles; for the first 18 miles out of St. Albans there was very little damage and service was possible to Enosburg Falls. From Enosburg Falls to Richford 9½ miles the damage was heavier, embankments were washed out for a depth of 6 to 8 feet and track carried away and one bridge abutment damaged.

Essex Junction to Burlington, 7.85 miles; two large bridges near Burlington were completely wrecked, the central piers being demolished and steel spans washed in the river and destroyed. Two new steel bridges will be required. There was also some damage to the roadbed.

Essex Junction to Cambridge, 22.29 miles; there was very severe washouts on some parts of this branch and slight damage over almost all. Near Cambridge the entire roadbed was washed away. The large bridges were not damaged.

Montpelier Junction to Barre, 7.96 miles; the principal damage on this line was between Montpelier and the Junction, one bridge was entirely wrecked and several others damaged. Embankments were washed out to a depth of from 4 to 12 feet and the ballast in many places entirely swept away. Both Montpelier Junction and Barre Yards suffered severely and high embankments were washed out at the ends of bridges in several places.

The West River Branch, 35.45 miles; this branch has been severely damaged, one large steel bridge was completely wrecked, and several others badly damaged. The embankments are washed out in several places and slides have occurred burying the track with dirt and refuse. Reports on this branch are not yet complete.

The following is a summary of the estimated total cost of restoring the railway to its former physical condition. This estimate is however based upon the temporary work being done under normal Winter weather, should severe or abnormal weather occur the cost may be increased by at least 25 per cent.

Northern Division—

	Main Line
Land.. . . .	\$ 900
Roadbed.. . . .	970,840
Ballast.. . . .	83,677
Track.. . . .	56,355
Fencing.. . . .	11,565
Culverts.. . . .	56,298
Bridges.. . . .	715,802
Buildings.. . . .	11,100
Ties lost.. . . .	40,000
Telegraph and Telephone.. . . .	13,000
Miscellaneous.. . . .	6,250
Contingencies.. . . .	189,213
Total.. . . .	<hr/> \$ 2,155,000

Northern Division—*Continued*

	Branch Line
Roadbed and Track.. . . .	73,000
Bridges and Culverts.. . . .	277,000
Telegraph and Telephone.. . . .	2,000
Total.. . . .	\$ 352,000

Southern Division—

	Main Line	
Roadbed and Track.. . . .	25,000	
	Branch Line	
Roadbed and Track.. . . .	36,000	
Bridges.. . . .	100,000	161,000
Grand Total.. . . .		\$ 2,668,000

It is probable that the total expenditure will closely approximate \$3,000,000 before all the lines are permanently restored.
 Montreal, December 3rd, 1927.

Mr. HENRY: Mr. Harris also asked for a third statement indicating the gross expenditure on capital account, the retirements and the net, to correspond with the figures on page 21 of the annual report.

Mr. HARRIS: May I ask if that also corresponds to the years 1925 and 1926?

Mr. HENRY: 1925, 1926 and 1927. I will file that statement.

CANADIAN NATIONAL RAILWAY SYSTEM

ROAD AND EQUIPMENT EXPENDITURES, 1925-1926-1927 PER STANDARD CLASSIFICATION ACCOUNTS 701 AND 702

Acct. No.	Road—	1925			1926			1927			Acct. No.									
		701		Total	702		Total	701		Total										
		\$	cts.	\$	cts.	\$	cts.	\$	cts.	\$		cts.								
1	Engineering.....	349,054	74	10,551	41	359,606	15	398,475	32	13,232	06	740,212	54	3,679	16	743,891	70	1		
2	Land for Transportation Purposes.....	729,710	88	28,088	34	757,799	22	1,955,237	25	107	80	2,680,856	05	34,902	90	2,645,993	15	2		
3	Grading.....	2,480,515	36	106,334	70	2,586,850	06	2,671,624	86	106,482	11	5,276,701	17	8,749	36	5,285,450	53	3		
5	Tunnels and Subways.....	26,756	36	26,756	36	26,756	36	52,883	40			52,883	40	37	489	68	37	489	68	5
6	Bridges, Trestles and Culverts.....	1,685,448	59	82,557	68	1,768,006	27	2,420,219	78	68,723	62	3,069,383	77	22,208	14	3,091,591	91	6		
7	Elevated Structures.....	1,414,236	77	19,985	58	1,434,222	35	2,047,043	03	7,436	98	2,054,102	11	9,351	70	2,063,458	81	7		
8	Ties.....	1,864,698	84	61,363	99	1,926,062	83	1,712,567	45	40,338	02	1,752,905	47	27,316	72	1,780,221	19	8		
9	Other Track Material.....	1,865,853	19	11,412	26	1,877,265	45	2,354,408	91	86,047	02	2,440,515	93	28,890	78	2,469,406	71	9		
10	Ballast.....	1,819,279	45	11,412	26	1,830,691	71	1,104,872	17	15,375	10	1,116,247	27	11,540	98	1,127,782	15	10		
11	Track Laying and Surfacing.....	1,208,873	49	19,489	38	1,228,362	87	1,159,055	80	22,419	64	1,181,474	44	23,801	98	1,205,275	42	11		
12	Right-of-Way Fences.....	198,121	36	457	23	198,578	59	209,739	64	669	23	210,348	87	118,953	54	230,302	41	12		
13	Snow and Sand Fences and Snow Shields.....	29,427	31	5,269	21	34,697	02	628,385	78	1,112	01	629,500	79	2,477	24	631,977	03	13		
14	Crossings and Signs.....	392,414	12	35,222	89	427,637	01	1,206,992	93	12,915	47	1,219,908	40	24,033	37	1,243,935	77	14		
15	Station and Office Buildings.....	796,311	23	64,850	80	861,161	03	1,206,992	93	12,915	47	1,219,908	40	24,033	37	1,243,935	77	15		
16	Roadway Buildings.....	31,742	42	5,558	98	37,300	40	136,953	75	4,462	79	141,416	54	344	96	141,760	08	16		
17	Water Stations.....	254,616	11	5,736	93	260,352	04	349,755	69	1,673	70	348,081	99	14,160	38	362,242	07	17		
18	Fuel Stations.....	51,458	40	1,098	27	52,556	67	149,255	78	93,587	13	141,457	31	1,844	33	150,301	64	18		
19	Shops and Engine Houses.....	452,068	28	31,207	13	483,275	41	1,404,901	58	7,738	47	1,412,639	05	15,562	93	1,428,201	98	19		
20	Grain Elevators.....	14,454	22	357	53	14,811	75	1,174,906	97	8,730	75	1,183,637	72	2,688	02	1,186,325	77	20		
21	Storage Warehouses.....	32,701	20	6,899	94	39,599	14	191,578	13	67	26	191,645	26	49,822	83	241,467	09	21		
22	Wharves and Docks.....	301	09	399	09	699	18	25,801	26			25,801	26	2,718	08	28,519	24	22		
23	Coal and Ore Wharves.....	399	09	399	09	699	18	25,801	26			25,801	26	2,718	08	28,519	24	23		
24	Gas Producing Plants.....	399	09	399	09	699	18	25,801	26			25,801	26	2,718	08	28,519	24	24		
25	Telegraph and Telephone Lines.....	59,832	67	7,711	97	67,544	74	106,061	06	2,719	26	108,780	32	283	28	109,063	25	25		
26	Signals and Interlockers.....	83,423	64	3,038	16	86,461	80	87,389	05	188	49	87,577	54	482	91	88,060	26	26		
27	Power Plant Buildings.....	58,809	28			58,809	28	14,300	40			14,300	40	27,315	78	390,792	85	27		
29	Power Sub Station Buildings.....	2,920	39			2,920	39	1,501	10			1,501	10	86,426	56	86,426	56	29		
30	Power Transmission Systems.....	7,884	67	1,073	30	8,957	97	1,011	41			1,011	41	218	44	218	44	30		
31	Power Distribution Systems.....	84,952	76	859	66	84,073	10	33,089	52	2,117	35	35,786	87	23,847	30	23,847	30	31		
32	Power Lines, Poles and Fixtures.....	69,240	59	7	92	69,248	51	3,798	41	69	36	3,867	77	97,806	95	97,806	95	32		
33	Underground Structures.....	7,911	15			7,911	15	2,087	41			2,087	41	86,877	69	86,877	69	33		
34	Miscellaneous.....	245,281	07			245,281	07	44,951	78	8,255	00	53,186	78	15,184	41	5,184	41	34		
35	Paving.....	3,342	82			3,342	82	23,225	00			23,225	00	15,715	82	15,715	82	35		
36	Roadway Machines.....	28,450	55	798	13	29,248	68	20,107	75	282	72	28,209	67	579	70	28,209	67	36		
37	Roadway Small Tools.....	2,736	37	234	60	2,970	97	20,528	23			20,528	23	647	27	27,022	40	37		
38	Assessments for Public Improvements.....	118,451	07	6,844	55	125,295	62	113,130	29	9,365	81	122,496	10	14,997	82	137,967	82	38		
39	Revenues and Operating Expenses during Construction.....	7,288	37			7,288	37	20	93			20	93	17,374	62	17,374	62	39		
40	Cost of Road Purchased.....	201	80			201	80							215	189	59	215	189	40	
41	Other Expenditures.....	3,664	63			3,664	63	3,549	06			3,549	06	1,278	201	89	1,278	201	41	
43	Shop Machinery.....	62,097	93	5,248	52	56,849	41	272,136	06	20,879	51	293,015	57	2,176	70	295,191	27	43		
44	Power Plant Machinery.....	133,764	59	4,507	39	138,271	98	27,858	97			27,858	97	17,220	07	296,121	51	44		
45	Power Sub Station Apparatus.....	420	53			420	53	6,618	39			6,618	39	3,678	79	17,220	07	45		
46	Power Plant Station Apparatus.....	420	53			420	53	6,618	39			6,618	39	3,678	79	17,220	07	46		

Unapplied Construction Material and Supplies.....	5,034 50	514,300 85	5,034 50	15,658 25	577,778 07	15,658 25	82,350 61	211,945 79	82,350 61	24,378,450 94	47
<i>Equipment—</i>											
Steam Locomotives.....	1,067,937 59	4,391 01	1,072,328 60	248,924 30		248,924 30	5,896,383 92		5,896,383 92		51
Other Locomotives.....				64,322 26		64,322 26	314,067 83		314,067 83		52
Freight Train Cars.....	488,906 12	981 02	487,925 10	305,158 91		305,158 91	6,738,342 00		6,738,342 00		53
Passenger Train Cars.....	1,363,195 37		1,363,195 37	785,293 66		785,293 66	5,696,616 40		5,696,616 40		54
Motor Equipment of Cars.....	523,223 84		523,223 84	14,736 58		14,736 58	239,869 53		239,869 53		55
Floating Equipment.....	4,132 54		4,132 54	1,226,226 54		1,226,226 54	509,034 70		509,034 70		56
Work Equipment.....	32,604 03	93,970 58	126,574 61	622,187 74		622,187 74	1,039,357 22		1,039,357 22		57
Miscellaneous Equipment.....	12,725 19	304 00	13,029 19	36,404 79		36,404 79	29,612 14		29,612 14		58
	1,291,644 43	99,038 61	1,390,683 04	2,105,090 36		2,105,090 36	20,434,877 59		20,434,877 59		
<i>General—</i>											
Organization Expenses.....	16 83		16 83				6,418 56		6,418 56		71
General Officers and Clerks.....	16 83		16 83				12,288 17		12,288 17		72
Law.....	557 13		557 13				18,960 47		18,960 47		73
Stationery and Printing.....	4,232 72		4,232 72				6,655 18		6,655 18		74
Taxes.....	7,970 02		7,970 02				354,281 71		354,281 71		75
Interest during Construction.....	183,570 07		183,570 07				6,212 26		6,212 26		76
Other Expenditures—General.....	27,119 81		27,119 81				392,391 83		392,391 83		77
	222,301 83		222,301 83				201,151 94		201,151 94		
Total Classified Expenditures.....	17,277,742 69	415,262 24	17,693,004 93	20,881,210 74	575,778 07	21,456,988 81	44,993,774 57		44,993,774 57		
Expenditures under Suspense Appropriations.....	264,111 05	7,115 14	256,995 91	587,778 34	11,568 13	576,210 21	384,771 11		384,771 11		
Expenditures by Separately Operated Properties.....	1,044,708 54	22,481 77	1,067,190 31	1,802,712 13	51,619 41	1,751,092 72	1,587,168 29		1,587,168 29		
Transfers between Balance Sheet Accounts not applicable to the year's expenditures.....	621,734 98		621,734 98	4,283,617 08	1,522,346 85	5,805,963 93	5,137,702 96		5,137,702 96		
Hudson Bay Railway.....				14,944,515 21		14,944,515 21	22,844,278 38		22,844,278 38		
Central Vermont Railway.....				28,544,096 12	600,207 74	29,204,213 86	712,185 54		712,185 54		
	17,964,827 30	430,628 87	18,395,456 17	31,412,018 36	326,412 31	31,085,606 04	25,722,992 60		25,722,992 60		
							2,766,603 73		2,766,603 73		
							1,918,137,416 53		1,918,137,416 53		

RECONCILIATION

	Acct. 701	Acct. 702	Total
Balance Sheet at December 31st, 1924.....	1,837,072,740 64	5,860,651 08	1,842,933,391 72
Change during 1925.....	17,964,827 30	430,628 87	18,395,456 17
Change during 1926.....	31,412,018 36	326,412 32	31,085,606 04
Change during 1927.....	28,489,596 33	2,766,603 73	25,722,992 60
Balance Sheet at December 31st, 1927.....	1,914,939,182 63	3,198,263 90	1,918,137,446 53

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAY SYSTEM

EXPENDITURE ON ROAD AND EQUIPMENT, 1925-1926-1927, PER ENGINEERING CLASSIFICATION

Group No.	Description	Year 1925			Year 1926			Year 1927		
		Expenditure applicable to Investment in Road and Equipment	Retirement of Property Credited to Capital Account	Expenditure less Retirements applicable to Investment in Road and Equipment	Expenditure applicable to Investment in Road and Equipment	Retirement of Property Credited to Capital Account	Expenditure less Retirements applicable to Investment in Road and Equipment	Expenditure applicable to Investment in Road and Equipment	Retirement of Property Credited to Capital Account	Expenditure less Retirements applicable to Investment in Road and Equipment
1A	New lines constructed	6,971,003 03	18,263 44	6,952,809 59	5,280,684 89	179,305 68	5,101,379 21	8,020,939 92		8,030,939 92
B	New lines acquired	201 89		201 89				26,135 75		26,135 75
C	Line diversions	1,683 30	140,445 43	138,762 13	23,107 49	76,311 14	53,203 65	33,358 49	1,835 61	32,022 88
D	Double tracking	76,245 76	5,674 23	70,571 53	8,897 14	2,648 90	6,248 24	51,351 73	4,525,338 10	626,029 73
2A	New rails and fastenings	3,145,204 49	2,677,163 03	468,041 46	5,013,809 89	4,288,495 16	725,314 73	5,151,267 83	3,200 00	20,174 03
B	Relaying rails (S/H Rail)	1,526,584 00	1,202,581 41	324,002 59	1,332,633 54	1,043,661 27	333,972 27	1,250,587 39	16,692 70	70,163 39
C	Tie plates	787,264 91	49,774 77	737,490 14	1,471,765 97	73,408 95	1,398,357 02	1,770,205 49	2,130 00	24,895 17
D	Rail anchors	223,138 03	17,801 28	205,336 75	286,052 67	9,683 57	276,369 10	285,881 67	5,514 00	129,014 90
3	Ties	121,446 29		121,446 29					5,514 00	129,014 90
4A	Rock ballast	210,763 97	51,502 61	159,261 36	145,839 00	35,204 53	110,634 47	459,861 77	1,097 63	12,909 61
B	Gravel ballast	258,602 69	1,280 00	257,322 69	282,682 55	31,207 64	251,174 91	308,761 49	1,697 72	18,215 13
C	Slag ballast				3,750 00		3,750 00	3,000 00	12,372 96	32,594 79
5A	Widening cuts and fills	58,972 56		58,972 56	83,874 32		83,874 32	117,477 66	3,600 00	113,877 66
B	Sealing rock cuts	23,107 06		23,107 06	24,633 83		24,633 83	19,708 05	3,200 00	20,174 03
6A	Rip rap	44,053 33	1,220 00	42,833 33	47,728 19	800 00	46,928 19	23,974 03	3,200 00	20,174 03
B	Retaining wall and crib work	22,437 29	2,270 00	20,167 29	45,483 67	5,213 70	40,269 87	86,556 09	16,692 70	70,163 39
7A	Ditching	400 00	40,571 78	40,171 78	28,892 54	2,330 00	26,562 54	127,025 17	2,130 00	24,895 17
B	Tile drainage	165,700 91	40,531 04	125,169 87	165,324 72		165,324 72	131,328 90	5,514 00	129,014 90
C	Sewers	12,288 71		12,288 71	8,179 41	1,633 05	6,546 33	14,006 64	1,097 63	12,909 61
8A	Highway and farm crossings	21,219 58	4,734 00	16,485 58	37,461 97	3,323 30	34,137 97	20,582 85	1,697 72	18,215 13
B	Roadway and paving	34,710 66	500 00	34,210 66	35,952 72	1,286 00	34,666 72	44,967 75	12,372 96	32,594 79
9A	Right of way fence	52,972 90	4,963 74	48,010 16	66,986 75	2,868 82	44,117 86	44,342 89	1,410 73	43,340 86
B	Snow fence	20,884 79		20,884 79	15,332 84	641 48	14,710 80	20,052 32	2,307 94	18,642 32
10A	Large freight terminals	948,212 21	212,186 93	736,025 28	275,491 01		275,491 01	1,306,407 76	77,503 51	1,309,889 82
B	Large passenger terminals	12,299 00		12,299 00	842,845 79	44,814 57	788,031 22	1,276,418 35	2,307 94	1,278,824 94
11A	Other yard tracks and public business sidings	603,216 47	125,716 64	477,499 83	1,731,997 16	173,893 38	1,558,103 78	1,489,012 85	240,949 17	1,248,063 77
B	Passing tracks	148,822 43	10,421 49	138,400 94	245,680 54	7,127 73	235,552 82	294,108 01	27,349 25	266,758 77
C	Private sidings	407,609 31	233,537 29	174,072 02	307,457 72	139,729 46	167,728 26	307,085 56	270,995 24	36,690 32
12	Roadway—Miscellaneous	214,478 88	20,570 48	3,907 80	327,552 06	165,149 55	162,402 71	401,028 38	250,719 18	153,309 20
13A	New steel bridges or the replacement with concrete or steel bridges	1,234,912 03	330,984 72	893,927 31	404,749 73	121,749 41	283,000 57	1,082,756 01	207,616 55	875,139 46
B	Culverts, new or the replacement thereof	373,876 91	138,382 21	235,494 70	425,190 16	185,085 79	239,304 37	363,487 08	184,116 07	179,371 01
C	New timber bridges and trestles or replacement of existing timber bridges or trestles in kind	185,816 49	44,672 48	141,144 01	612,366 62	269,896 64	342,469 98	232,677 45	134,063 76	98,613 69
D	Replacing timber bridges and trestles with culvert and fill	715,767 26	237,397 28	488,369 98	1,130,016 20	329,242 17	800,774 03	841,551 02	303,902 63	537,656 39

30	Surveys—right-of-way and others.....	25,501 80	32,631 01	8,949 81	8,949 81
32	General miscellaneous.....	371,644 22	284,534 38	438,971 23	113,882 65
32A	Fire protection.....	195,402 98	190,537 48	325,108 58	23,624 91
40	Stores Department, buildings and equipment.....	6,903 12	191,196 92	180,267 16	172,143 16
42	Traffic Department.....	74,319 92	33,706 61	8,243 47	7,559 62
43	Legal and Tax Department.....	2,818 01	64,720 52	173,012 64	171,282 85
44	Colonization Department.....		1,563 19	1,731 18	1,481 18
	Total Classified Expenditures.....	30,006,483 93	37,819,605 24	59,241,844 02	45,194,926 51
	Expenditures under Suspense Appropriations.....				
	Expenditures by Separately Operated Properties.....	284,111 05	587,778 34	384,771 11	319,473 61
	Transfers between Balance Sheet accounts not applicable to the year's expenditures.....	1,044,708 54	1,802,712 13	1,587,168 29	1,588,089 29
	Hudson Bay Railway.....	621,734 98	4,283,617 08	5,805,963 93	2,815,914 33
	Central Vermont Railway.....		14,944,515 21	14,944,515 21	
			28,544,006 12	22,844,278 58	23,556,463 92
		30,693,568 54	48,350,472 86	712,185 54	25,722,992 60
			17,264,866 82	17,014,673 18	

RECONCILIATION

	cts.
Balance Sheet at December 31st, 1924.....	1,842,933,391 72
Change during year 1925.....	18,395,456 17
Change during year 1926.....	31,085,606 04
Change during year 1927.....	25,722,992 60
Balance Sheet at December 31st, 1927.....	1,918,137,446 53

Mr. HENRY: Mr. Harris also asked for a statement of the amount of money included in items Nos. 2 and 3, page 21 of the annual report under the caption "Roadway," which related to land and grading during 1927, charged to this account, in respect to Toronto and the township of Scarboro, but not included in the terminals. I would like to read a memorandum in regard to that.

The question asked by Mr. Harris on April 18th (page 81) was for the amount of money included in the item of \$2,673,627.79 "Land for Transportation Purposes" of the Expenditures, less Retirements, during the year 1927, applicable to Investment in Road and Equipment, spent in Toronto and in the Township of Scarboro, exclusive of the Toronto Terminals Railway, and, secondly, the same information with regard to "Grading"—\$5,215,023.57;

The answer to the first question is: Cr. \$12,057.15;

The answer to the second question is: \$272,153.75.

It may be explained in this connection that the large area of land purchased by the National Railways at Scarboro, embracing 294 acres, cost \$455,-653.91 and was purchased for the purpose of supplying material which could be used for fill along the waterfront, partly on account of the Canadian National Railways and partly on account of the Canadian Pacific Railway and partly on account of the Toronto Terminals Railway. An arrangement has been made with these parties for the supply of this filling. After the filling has been taken out, it is the intention that a new yard shall be constructed at Scarboro for the purpose of handling more economically the business into and out of Toronto. The cost of this land is included in Unadjusted Debits pending the change in the yard at Danforth. Up to the present time there has been supplied from this area 653,-297 cubic yards.

Mr. HARRIS: I might say that Scarboro Township will greatly appreciate the information that a yard is to be established there.

Mr. HENRY: Mr. Stevens asked for an explanation regarding the operation of the equipment trust and the manner in which it is handled in the accounts. I would like to file that statement, and also a statement to the extent in which equipment trust financing is done in the United States and also a statement showing what some of the representative railways of the United States do.

MEMORANDUM RE EQUIPMENT TRUSTS AND THE RELATION OF SAME TO THE ACCOUNTING PRACTICE WITH RESPECT TO THE EQUIPMENT RETIREMENTS AND THE CHARGES TO OPERATING EXPENSES

In Canada and the United States it has been the practice for many years to issue Equipment Trust Securities for the purpose of securing funds to purchase a large proportion of the rolling stock used in railway operation.

There are several types of equipment trusts, but the most widely used is based upon what is known as the "Philadelphia Plan." Under this plan there are three parties involved, a railway company, a rolling stock company, and a trustee. The railway company agrees to lease the equipment from the rolling stock company and to pay in the form of rental an amount equal to the interest upon the securities to be issued and sufficient to retire the serial payments on account of principal annually or semi-annually, as the case may be, until all the securities have been paid off. The rolling stock company pledges the lease with the Trustee, who, in turn, issues equipment trust notes to the public. The railway company does not obtain title to the equipment until the equipment trust notes have been fully retired. The period of the equipment trust is usually from ten to fifteen years.

The accounting procedure required by the Interstate Commerce Commission regarding acquisition and retirement of equipment is as follows:

When equipment trust notes or other securities are issued to provide funds for the purchase of new equipment, the par value of these securities is added to the funded debt of the system. All equipment acquired is charged to investment account at cost. When any portion of the funded debt is discharged, naturally the liability account is reduced to that extent. As and when equipment is retired from service, the investment account is reduced by taking therefrom the value at which such equipment was carried in such account, and the resultant loss, less any salvage, is charged to operating expenses. From this it will be seen that, having discharged the liability incurred for the purchase of equipment, and having retired from service the equipment itself, the capital investment account and the capital liability account have both been purged of the amounts previously included in respect to such equipment, and the loss due to the wearing out of the equipment in service has been met by charges against operating account.

That is the practice on our Canadian Lines. The practice on the Lines in United States is similar except that the loss is taken care of by depreciation accruals as required by the Interstate Commerce Commission.

A question regarding accounting procedure was raised at this Committee last year. Inquiry was then addressed to the Director of Accounting of the Interstate Commerce Commission as to the correct method of accounting for these certificates and reply was received indicating that the method adopted by us was in strict conformity with the requirements of the Commission.

OTTAWA, April 24, 1928.

Statement of Capitalization of Class I Roads of the United States,
December 31, 1926

Stocks—

Common	\$ 5,935,372,148	
Preferred	1,749,641,579	\$ 7,685,013,727

Funded Debt—

Mortgage Bonds	\$ 7,744,026,315	
Collateral Trust Bonds	1,005,865,130	
Income Bonds	280,892,876	
Miscellaneous Obligations	472,124,476	
Equipment Obligations	1,068,604,082	\$10,571,512,879
Total Railway Capital Outstanding		<u>\$18,256,526,606</u>

NEW YORK CENTRAL (EXCEPT MICHIGAN CENTRAL)

New York Central & Hudson River	Equipment Trust of 1912	Annual.....	Oct. 1, 1912	15	4 $\frac{1}{2}$	500,000	500,000
Boston and Albany	Equipment Trust of 1917	"	Jan. 1, 1918	14	4 $\frac{1}{2}$	1,117,000	5,585,000
N.Y.C.R.R.	Equipment Trust of 1913	"	Jan. 1, 1913	15	4 $\frac{1}{2}$	1,600,000	1,600,000
New York Central Lines	Equipment Trust Notes No. 43	"	Jan. 15, 1920	15	6	922,700	8,304,300
New York Central R. R.	Equipment Trust of 1920	"	April 15, 1920	15	7	1,153,167	10,378,506
"	Equipment Trust Gold Certificates	Philadelphia	June 1, 1922	15	5	1,813,000	20,273,000
"	Equipment Trust of 1922	"	Sept. 1, 1922	15	5	844,000	9,284,000
"	"	"	June 1, 1923	15	4 $\frac{1}{2}$	1,156,000	13,872,000
"	Equipment Trust of 1923	"	June 1, 1923	15	5	1,470,000	21,710,000
"	Equipment Trust of 1924	"	Sept. 15, 1924	15	4 $\frac{1}{2}$	1,397,000	18,161,000
"	"	"	May 15, 1925	15	4 $\frac{1}{2}$	1,446,800	21,000,000
"	Equipment Trust of 1925	"				13,649,667	130,667,806

NEW YORK, NEW HAVEN & HARTFORD RAILROAD

N.Y., N.H. & H. Equipment Trust, Series A	Annual.....	April 1, 1924	15	5	166,000	498,000
"	Semi-annual.....	May 15, 1918	10	6	342,000	513,000
"	"	Oct. 1, 1920	15	7	131,000	1,184,000
"	Annual.....	Jan. 15, 1920	15	6	295,900	2,663,100
"	"	Oct. 1, 1920	7	6	109,000	109,000
"	Semi-annual.....	Jan. 1, 1925	15	5	243,000	3,280,000
"	"	Dec. 1, 1925	15	4 $\frac{1}{2}$	333,000	4,995,000
					1,610,900	13,233,100

ILLINOIS CENTRAL R.R. CO.

I. Cent. R.R. Co. Equipment Trust Gold Certificates Series E	Semi-Annual.....	Nov. 1, 1917	10	5	550,000	550,000
"	"	Oct. 1, 1920	15	7	737,000	6,633,000
"	Philadelphia.....	Feb. 1, 1921	15	6 $\frac{1}{2}$	324,000	3,240,000
"	"	Oct. 1, 1922	15	5 $\frac{1}{2}$	217,000	2,387,000
"	Annual.....	May 1, 1922	13	4 $\frac{1}{2}$	343,000	4,876,000
"	Philadelphia.....	Oct. 1, 1923	15	5	1,273,000	14,003,000
"	"	Aug. 1, 1924	15	4 $\frac{1}{2}$	863,000	11,219,000
"	"	Oct. 1, 1925	15	4 $\frac{1}{2}$	616,000	8,624,000
"	"	May 1, 1926	15	4 $\frac{1}{2}$	386,000	5,018,000
"	"	Oct. 1, 1926	15	4 $\frac{1}{2}$	311,000	4,665,000
Government Equipment Trust No. 23 Gold Notes	Annual.....	Jan. 15, 1920	15	6	617,100	5,821,000
The Pullman Company Equipment Contract	Semi-Annual.....	Jan. 17, 1922	10	6	171,850	1,075,149
					6,511,450	68,111,049

Mr. HENRY: I think that clears up all the questions.

Sir HENRY THORNTON: The questions have all now been answered, Mr. Chairman. We will be glad to follow your wishes as to further procedure.

The CHAIRMAN: I think the answers to these questions clear up what we have in the annual report of the Canadian National system. Is it your pleasure to adopt the report?

Mr. HARRIS: We did not have the pleasure of having Sir Henry Thornton with us in the room for the last two meetings—

The CHAIRMAN: We certainly missed him.

Mr. HARRIS: —and I wonder if he would care to make any observation with regard to the situation we find with reference to the investment in road and equipment. This item is mounting quite rapidly, and the present system of keeping records is not such as to lend itself to arriving at any determination of the amount of sinking fund which might be later reflected in the balance sheet or the operating account. I would like to ask if there is any way we can get an idea of the procedure upon the exhaustion of these different elements in the operating account.

Sir HENRY THORNTON: I think, Mr. Harris, if my recollection of what transpired is correct, the point you have raised was dealt with very exhaustively at the recent meeting. I can only say that the practice of the Canadian National Railways with respect to matters of that sort is, in general, the accepted practice on most railways and is in accord with any legal obligations with which we may comply.

As far as additions to capital are concerned I shall have to content myself with the statement that the railway is a constantly growing thing. There are constant annual necessitous expenditures on capital account, some of which are in themselves unremunerative but necessitous. For example, there is the Toronto viaduct proposition which involves a large expenditure of money but which will not reflect itself in our net earnings sufficiently, probably, to pay an interest on that investment. New passenger stations are necessitous in most cases, and generally unremunerative. When I say “unremunerative” I mean looking at it purely from the point of view of what returns there are. There are constantly necessitous branch lines which must be built throughout the country, sometimes to open territory for prospective business, often to relieve a serious burden which rests upon our farming population but generally we endeavour—and when I say “we” I mean the officers of the company, the directors and myself—to limit these capital expenditures to things which, having regard for all of the circumstances, we regard as necessitous, but there will be a constant steady increase in the capital of the railway just as there has been in the capital account of every railway. I do not think I can add anything of advantage to what has already been said.

Mr. HARRIS: That is all, Mr. Chairman.

Mr. BELL (St. Antoine): Are you prepared to make a statement regarding the terminal facilities at Montreal?

Sir HENRY THORNTON: No, that is a matter which is in the course of consideration. I do not think there is anything which I could usefully say upon the subject, except that we have been studying the matter for the last four years with increasing intensity, and we have developed a plan which we believe is the best solution of the situation, but if anyone else can show us a better plan we will be only too happy to adopt any suggestion that is better than our own. The matter is now under consideration by the interested parties and there is nothing I can say upon the subject at this time.

Mr. BELL (St. Antoine): There is no solution in sight at the present time? I am speaking particularly with regard to the level crossings as you enter Bonaventure station, and the station itself.

Sir HENRY THORNTON: The improvement of that position is a part of the general Montreal scheme, and presumably whatever scheme is finally adopted will effectively deal with that problem. No scheme, however, has as yet been adopted. We have merely suggested a scheme which we think is a good one, and it is under consideration by the interested parties, but if anyone has a better scheme, we are quite open to discuss it.

Mr. BELL (St. Antoine): The reason I ask that is because of a number of complaints. It is generally understood that there is a scheme under way, and, as you know, there are a great number of complaints regarding the level crossings, and what I am trying to ascertain is if there is any idea on the part of the railway officials as to when there will be some remedy granted covering that particular factor?

Sir HENRY THORNTON: We are as anxious to have that situation corrected as anyone, and we are doing what we can to expedite the solution, and I think I may say that the solution is proceeding as rapidly as such a problem can proceed. It is not being delayed by anyone, nor by any interest.

Sir EUGENE Fiset: Does the same thing apply to the Quebec terminal?

Sir HENRY THORNTON: Yes. We are also considering a solution of that problem.

Sir EUGENE Fiset: So this will be a capital charge and you will have to ask parliament to vote whatever money may be required.

Sir HENRY THORNTON: Any additions to the property which involve a capital expenditure is necessarily subject to the approval of parliament, whether it be at Quebec or Saskatoon.

Mr. CANTLEY: What success have you had with suburban car traffic, with either the Deisel or gasoline car? Are you extending that service?

Sir HENRY THORNTON: Yes, we have certain suburban branch line services which, under steam operation, have been conducted at a loss. We cast about to try and find some cheaper but equally efficient method of operation. In the course of our investigation we developed the Deisel electric unit, which we believe is the solution of the branch line problem or the solution of problems which involve the provision of steam service at a loss. We have built a number of these units and are putting them on wherever circumstances justify them. They have been highly satisfactory. (To Mr. Henry). Do you happen to have with you any figures on the subject?

Mr. HENRY: I believe we have.

Sir HENRY THORNTON: The upshot of the thing is that where we have put them on we have changed the loss to a profit. Where we have these services—and by “these services” I mean the Deisel electric services—the gross revenue is, in round figures, \$450,000; the expenses, \$238,000, so that there is a profit on these services of \$211,500 for the year 1927.

Mr. CANTLEY: What localities have you in mind?

Sir HENRY THORNTON: They are scattered pretty much all over Canada. These same services, if they had been operated by steam, would have shown a loss.

Mr. CANTLEY: Do you contemplate larger units?

Sir HENRY THORNTON: We have under contemplation a larger unit which, based upon the results of our experiences here with the smaller units, we think will be extremely interesting, but we have not gone far enough with them and made no field experiments, so we cannot give you any data about them.

Mr. CANTLEY: I should think it was very promising. The only objection I have heard is that the units in some places are too small to take care of the traffic, for instance, from Stellarton to Pictou.

Sir HENRY THORNTON: That may be, Colonel, and I think you are right in your general statement that it is a very measurable advancement in solving the problem of suburban branch line traffic.

Mr. CANTLEY: The chief objection seems to be that there is not sufficient accommodation.

Sir HENRY THORNTON: If there is not sufficient accommodation that is easily solved by adding another unit or a trailer. Your criticism is not with respect to the principle involved?

Mr. CANTLEY: No. I think the principle is good and should be extended. I think larger units would be even more economical.

Sir HENRY THORNTON: I think probably you are right. I think that as time rolls on it will be found that the development of this Deisel electric unit will be found to be more or less of a milestone in transportation history.

Mr. CANTLEY: Progress, of course, will only be made, as is made in everything, by trial and error, and I should think it will go on to larger units.

Sir HENRY THORNTON: I think probably that is a true statement.

Mr. CANTLEY: Can you let me know the number of wooden freight cars you still have in service, both flat and box cars?

Sir HENRY THORNTON: It should be comparatively easy to get that. Supposing we take a note of your question and hand in the answer a little later.

Mr. CANTLEY: Will you give me the ages of those cars and the number you have of them?

Sir HENRY THORNTON: Wooden cars?

Mr. CANTLEY: Yes.

Sir HENRY THORNTON: We can furnish that probably to-morrow.

Mr. CANTLEY: I hope they will soon be off the road. They are a menace to transportation.

Sir HENRY THORNTON: I should like to see them off the road myself, but they are an heritage and something which will have to be eliminated by the natural process of elimination.

Mr. CANTLEY: They are eliminating themselves pretty rapidly.

Sir HENRY THORNTON: Probably they are.

Mr. CANTLEY: When do you propose taking up the Merchant Marine?

The CHAIRMAN: Right after we got through with this. Sir Henry, will you read the statement you have prepared?

Sir HENRY THORNTON: Mr. Chairman, the members of the Committee have before them copies of the Ninth Annual Report of the Canadian Government Merchant Marine. That develops the following points: the accounts which have been certified by the auditors, show an operating loss of \$720,735.40 in 1927 as compared with operating losses of \$90,159.91 in 1926, \$948,053.34 in 1925, \$1,440,880.21 in 1924.

The report also says: "The less favourable showing in 1927 was largely attributable to conditions under which certain of the services had to be operated, there being a shortage of cargo tonnage, also additional competition which resulted in reduced freight rates. It is, however, gratifying to be able to report that prospects for the future are brighter owing to decreased competition and the stabilization of freight rates."

It was the additional competition which forced lower freight rates, which is largely responsible for the showing this year. Last year when we discussed the

Canadian Government Merchant Marine's affairs it was asked that the press should be excluded from the Committee. I shall have to ask that the same procedure be followed this year, if I am to be in a position to give to this Committee all of the information which it should have. That will necessarily explain certain things in relation to competition, giving certain figures and certain facts which will be of distinct advantage to competitors and which in the interests of the Government Merchant Marine should not be made public. I can say nothing more in the way of information except what has been given you.

Hon. Mr. STEVENS: Mr. Chairman, I was not here last year when the press was excluded and I do not know the nature of the information or anything about it. I am not offering this in the way of an objection to Sir Henry's request, but there must be a good deal of discussion that could be carried on with the press present.

The CHAIRMAN: When we get through with the discussion—

Mr. DUFF: There may be some competitors in a small way here now.

Sir HENRY THORNTON: We can discuss the general figures.

Hon. Mr. STEVENS: The last thing I would want to suggest would be to embarrass the Directors of the company.

Sir HENRY THORNTON: It does not embarrass us in the least. I am speaking from the point of view of the welfare of the Government Merchant Marine. Obviously I have no desire for anything but the fullest publicity, but there are certain facts in connection with the operation of the Government Merchant Marine which will be distinctly advantageous to our competitors if known. They are perfectly legitimate things which should be known to and discussed by this Committee, but not put in the hands of competing interests.

Hon. Mr. STEVENS: That is quite understood and appreciated, but in our discussion of the National railway affairs I think Sir Henry and his associates have been exceptionally frank in their statements, and I do not see that any particular harm has come from it.

Sir HENRY THORNTON: There is a difference between the operations of the Government Merchant Marine and the railways. There is no fact, practically speaking, in connection with the railways which everybody from the north to the south pole may not know. The competitive position with respect to the Canadian Government Merchant Marine on the high seas is quite a different matter—

Mr. McLEAN (Melfort): Of course the railway can not go out of its own territory to pick up freight, whereas a steamer can. I can understand the force of Sir Henry's remarks.

Sir HENRY THORNTON: I would like to tell everybody everything I know.

Mr. McLEAN (Melfort): If you did, you would not last long where you are now.

Mr. CANTLEY: It would certainly be very interesting.

Sir HENRY THORNTON: If you like, we will go ahead and discuss the various accounts and if I find I am getting on thin ice, I will say so.

Hon. Mr. STEVENS: I think that will be quite proper, because I cannot conceive of everything being so exceedingly secret.

Hon. Mr. DUNNING: That has been the practice in regard to matters which, in the judgment of the management, should not be answered even in Parliament itself. Possibly we can proceed and see how far we can get. Personally I am anxious that the Committee should have a full disclosure of the whole operation. I know enough, however, regarding this matter from Sir Henry to

know that there are many phases which would be decidedly against the interests of the Merchant Marine, were they given general publicity.

Hon. Mr. STEVENS: I would suggest that Sir Henry intimate very promptly when we reach them.

Mr. DUFF: Let us go ahead until we reach them, and not cross the bridge until we come to it.

Sir HENRY THORNTON: I take it you want to start first with the operating account, and the first things under "Operating Revenue" are the gross receipts which this year amounted to \$10,231,560.77 as compared with approximately \$11,000,000 a year ago. I suppose I might as well read this.

Mr. DOHERTY: Except that which relates to the individual services.

Sir HENRY THORNTON: From the Annual Report in your possession, you will observe that the operating loss of \$720,735.40 in 1927 compares with operating losses as follows for the previous years:—

\$ 90,159 91 in 1926,
948,053 34 in 1925,
1,440,880 21 in 1924.

The Annual Report also contains other information regarding the operations of the Canadian Government Merchant Marine, and the figures speak for themselves, the outstanding features being as follows:—

The fleet consists of forty-six vessels with total deadweight tonnage of 312,090.

The gross revenue for 1927 was \$10,233,964.43 or \$755,472.99 (6.87 per cent) less than in 1926.

The vessel operating expenses in 1927 were \$10,235,706.77, which was 1.54 per cent or \$159,739.55 less than in 1926.

The operating ratio for 1927 was 107.04 as compared with 100.82 in 1926.

The book deficit for the year amounts to \$7,086,939.59, which is more by \$399,718.52 than the deficit in 1926.

The following figures show tonnages handled by the entire fleet during the year; they include freight in transit on December 31:—

	Tons	Value
Export Traffic.. . . .	707,305	\$ 77,232,705 20
Import Traffic.. . . .	401,025	65,564,848 53
Intercoastal Traffic.. . . .	119,385	15,108,814 48
	<hr/> 1,227,715	<hr/> \$157,906,368 21

Close co-operation still continues between the marine organization and the Canadian National Railways with mutually satisfactory results to both. During 1927 the steamers delivered to the Canadian National Railways inward freight totalling 60,847 tons with rail earnings of \$438,576 while on 150,863 tons of export traffic received from said railways the rail earnings were \$971,129, the two items making a total of \$1,409,705.

As a result of our operating services to Australia, New Zealand and Newfoundland, subsidies to other companies, aggregating \$156,500 are no longer paid by the Dominion Government.

During the year an additional \$338,000 was added to the Insurance Reserve. The Reserve Surplus at December 31, 1927, is \$2,179,123.31, which amount, together with \$22,119.52 to meet losses sustained but unpaid, brings the total reserve to \$2,201,242.83.

That of course only relates to the marine service; that represents the marine service insurance.

There were no serious losses except on two different occasions in the case of one vessel.

The vessels of the fleet were maintained in good condition, warranting their retaining highest classification.

Pending the construction of the new vessels for the British West Indies Services, under the Canada-West Indies Trade Agreement of 1925, temporary passenger and freight services are being maintained by this Company. The new vessels will be owned by the Canadian National (West Indies) Steamships Limited or subsidiaries, but their operation will be under the same management as that of this Company.

As from March 15th the title "Canadian National Steamships" will be used in connection with the operations of vessels controlled or operated in conjunction with the Canadian National Railways and engaged in ocean and coastwise services."

Mr. HENRY (Reading):

Assets

Investments—

Vessels at December 31, 1926	\$64,483,821 41
Less: Net deductions during year	2,113,137 49
	\$62,370,683 92
Plant and Equipment	44,822 69
Office Furniture and Fixtures	53,064 92
Other	500 00
	\$62,469,071 53

Mr. DUFF: Before we go any further this value of the vessels at \$62,470,000—is that the actual value of the ships or the book value?

Mr. HENRY: The original value.

Mr. DUFF: The book value?

Mr. HENRY: Yes.

Mr. JELLIFF: What is included in the net deductions during the year of \$2,000,000?

Mr. HENRY: During the year the SS. *Canadian Pathfinder* note cancelled \$1,545,080.71; *Canadian Skirmisher* note cancelled \$1,564,472.53. The total of these two items is \$3,109,553.24. The additions during the year, *Canadian Pathfinder* \$271,813.40, *Canadian Skirmisher* \$270,736.17, a total of \$542,549.57.

Hon. Mr. DUNNING: Explain the note "cancellation," Mr. Henry.

Mr. HENRY: Each one of these boats is an individual company and notes were given to the Dominion government in respect to them. When a boat is sold or disposed of in some other way, or wrecked, the note is cancelled and the amount of that note is taken out of the investment account.

Mr. DUFF: It is not paid; it is cancelled.

Hon. Mr. DUNNING: The government just takes that loss.

Mr. BELL (Deputy Minister): But the government takes the cash which is paid if the boat is sold?

Mr. JELLIFF: Did I understand you to say that one or two boats were sold?

Mr. HENRY: No; they were reconstructed and put into the West Indies service.

Sir HENRY THORNTON: They were reconstructed for passenger service to stand in the breach until the new boats are in service.

Mr. DUFF: Do you carry any insurance on the boats?

Sir HENRY THORNTON: Yes.

Mr. DUFF: What about the insurance? Would that not go to the government?

Sir HENRY THORNTON: They would collect the insurance in the event of casualty, a wreck or an accident.

Mr. DUFF: What becomes of that money?

Sir HENRY THORNTON: It is used to repair the boat or toward the payments on a new boat, or, I suppose, in the event of a boat disappearing altogether, it would go to the government.

Mr. DUFF: In the event of a total loss that money goes to the government to reduce the note?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: The \$62,000,000 is the book value of the present boats, not the original book value of the entire fleet.

Mr. HENRY: It is the original book value of all of the boats which are intact at the present time.

Hon. Mr. DUNNING: Can you give us the book value of the entire fleet before you sold or wrecked any of them?

Mr. HENRY: \$79,511,660.

Hon. Mr. DUNNING: Sir Henry, in your discussion on insurance, the Committee is of course clear that we carry our own insurance; it is not outside insurance.

Mr. DUFF: You have an insurance account of your own?

Hon. Mr. DUNNING: Yes.

Sir HENRY THORNTON: If it has not already come up in the railway accounts, the Committee should understand that the railway since the spring of 1923 has been doing all of its own insuring, which includes the insurance cost of the Canadian Government Merchant Marine. The insurance reserve for the whole of the railways and the Canadian Government Merchant Marine now stands approximately at \$10,000,000, which is invested in Canadian government bonds.

Mr. DUFF: There are two accounts?

Sir HENRY THORNTON: Of that amount a certain portion is assigned to the Canadian Government Merchant Marine. The two are under the same administration, but a certain amount which I mentioned a moment ago is ear-marked for Canadian Government Merchant Marine insurance purposes.

Mr. HENRY: It is on page 2, \$2,201,000.

Mr. DUFF: I notice in your operating account you do not charge any insurance premiums to that account.

Sir HENRY THORNTON: There must be an item there; it is charged.

Hon. Mr. DUNNING: "Taxes and insurance."

The CHAIRMAN: The fifth item on page 10.

Mr. DUFF: Oh, \$13,000 is not the insurance for 46 hulls.

Mr. BELL (Deputy Minister): We pay exactly the same as to an insurance company. That goes into the insurance reserve and is invested in government bonds.

Mr. DUFF: Included in the expenses of the closed voyages.

Sir HENRY THORNTON: It would be an expense charge.

Mr. HENRY: There is included in the 1927 account \$792,442. That is included in the item \$10,235,706 representing the operating expenses, "Vessels, Closed Voyages."

Assets

Current:

Cash in Banks..	\$ 471,573 63	
Accounts Receivable..	173,630 14	
Due by Agents..	413,396 39	
Mortgages Receivable..	90,000 00	
Advances to Captains, Crews and Agents	65,851 14	
Inventories of Stores and Supplies.. . .	182,301 72	
		\$ 1,396,653 02
Insurance Fund..		2,665,744 03
		<u>\$66,531,568 58</u>

Liabilities

Capital Stock

Authorized 10,000 shares of \$100 each	\$1,000,000 00	
Issued: 6,609 shares of \$100 each....	\$ 660,900 00	
LESS: Cancelled or held in Treasury in respect of Vessels disposed of—2,000 shares.. . . .	200,000 00	
		\$ 460,900 00

Dominion of Canada Account

Notes payable and Advances due Dominion Government (Secured by Mortgages on Vessels)	\$61,830,742 86	
Other Advances by Dominion Government..	8,964,158 67	
Interest Accrued to 31st December, 1927	25,590,676 62	
		\$90,385,578 15
Balances Outstanding on Vessels Sold	90,000 00	
		<u>\$96,475,578 15</u>
Advances by Canadian National Railways..	565,760 57	
Accounts Payable..	879,774 62	
Balances of Uncompleted Voyages..	90,006 18	
Reserve for Depreciation—Vessels..	16,924,198 75	
Insurance Reserve..	2,201,242 83	
Profit and Loss Account—Deficit.. (Red Ink) ..	51,065,892 52	
		<u>\$66,531,568 58</u>
Contingent Liabilities—None ascertained..		

Mr. BELL (St. Antoine): Is that \$51,000,000 the total deficit since the commencement of the Merchant Marine?

Hon. Mr. DUNNING: That is an operating loss.

Mr. COOPER: No sir, that includes depreciation and everything.

Hon. Mr. DUNNING: It does not include capital loss on vessels sold which has been absorbed by the government. This \$51,000,000 means all the other items but that?

Mr. COOPER: 'Yes.

Hon. Mr. STEVENS: Including interest to the government?

Hon. Mr. DUNNING: Yes, it includes that.

Mr. COOPER: Yes, sir.

Mr. BELL (St. Antoine): Since what year?

Mr. HENRY: Since the day the first boat was put into operation—1919.

Sir HENRY THORNTON: About nine years.

Mr. HENRY: The accumulative operating deficit is \$9,599,000; the balance is depreciation and interest to December 31, 1927. The interest included there is \$25,590,000; depreciation \$16,924,000.

Mr. BELL (St. Antoine): When you say "Operating Deficit"—

Mr. HENRY: Before interest and depreciation.

Mr. McLEAN (Melfort): That item of \$16,000,000 for depreciation is merely a bookkeeping item?

Mr. HENRY: Yes.

Sir EUGENE Fiset: Are steps being taken to try and eliminate altogether this deficit, as you are doing for the Canadian National?

Sir HENRY THORNTON: That is one of the things we are supposed to be paid for and—with becoming modesty—we are making every conceivable effort to reduce the deficit and keep the Canadian Government Merchant Marine on a sound basis.

Hon. Mr. DUNNING: I thing, Sir Eugene, you mean to ask if the Government is going to forgive them the interest.

Sir EUGENE Fiset: Exactly.

Sir HENRY THORNTON: I do not know.

Mr. DUFF: I think it would be as well to reduce the assets to the actual value of the ships. I do not see the sense of charging interest on \$62,000,000.

Sir HENRY THORNTON: It is entirely a paper transaction.

Mr. DUFF: Yes, but it does not do any good. We may as well face the thing and get it over with, if we are going to operate.

Mr. CANTLEY: Have you had any appraisal made of the value of the tonnage at the end of the year?

Sir HENRY THORNTON: The value of the fleet? Yes, we can tell you that. We can give you an estimate of it if you like to have it.

Hon. Mr. CHAPLIN: Is not the amount of interest that is charged absolutely nothing more than a delusion? Why should it be kept on?

Sir HENRY THORNTON: It is a delusion in the sense it is not paid.

Hon. Mr. CHAPLIN: And it never will be paid. Why not get the ships down to their real value, as Mr. Duff suggested?

Mr. McLEAN (Melfort): It would not help us any to cancel that interest. This is giving us a truer picture.

Mr. CANTLEY: But we are treating as an asset the value of the ships there.

Sir HENRY THORNTON: It is about \$50 a ton.

Mr. DUFF: \$15,600,000 are round figures.

Sir HENRY THORNTON: That is right.

Mr. BELL (St. Antoine): In your annual report you say, "Resumed normal trading is looked for early in 1928, but the situation is not free from anxiety or difficulty". May I ask this general question: What makes you think that the Canadian Government Merchant Marine will be a success any

more than that of Australia or the United States, with their experiences regarding their merchant marine? Is not the Government Merchant Marine regarded simply as a feeder for the Canadian National Railways?

Sir HENRY THORNTON: That involves answers to several questions. In the first place, with respect to normal trading we anticipate that certain competitive features will disappear during this year which operated to produce unremunerative rates last year. That we can tell you more about later. As far as the Government Merchant Marine is concerned, in its service to the Dominion of Canada, it furnishes services to certain trades and certain trillies, more particularly on the Pacific coast, which have been of considerable benefit to those who produce in Canada. It is a certain assurance against combinations and extortionate rates from private companies; it is a system which is constantly exploring and investigating new trade routes for the purpose of encouraging Canadian trade abroad. If I were asked to-day, should we as a nation embark upon the construction of a merchant marine fleet, I would say: "No, it is unwise to do it." But we have this fleet; it has been constructed at considerable expense, and we are using it as an instrument to promote Canadian trade, and I think it has fulfilled a distinctly useful purpose in that direction.

Mr. BELL: Would you say more so than the Australian Merchant Marine did for Australia?

Sir HENRY THORNTON: I would say so. I should think so unquestionably. As far as the experiment of the United States is concerned, that is not quite on all-fours with our position in Canada. To begin with, the United States embarked upon a very ambitious merchant marine proposition, which, of course, was the out-growth of the war. It came into severe competition with powerful and long-established ocean interests. Because of its very size, it was difficult to operate economically, and difficult to give all of its operations that close scrutiny which is necessary. Our position here is relatively different. We have a smaller fleet; we are able to give that fleet a more intensive administration, and I think, if the shippers on the Pacific coast particularly were consulted, they would say that the Government Marine had been very useful to them.

Hon. Mr. DUNNING: The United States Government Marine was not linked up with the railways in any sense either.

Sir HENRY THORNTON: No, they had no land transportation proposition involved.

Mr. McLEAN (Melfort): I presume, Sir Henry, you are running your fleet just the same as it would be run under private ownership, or by the owners of a long-established company?

Sir HENRY THORNTON: If you mean by that, are we operating our fleet in accordance with the best state of the art, I should say we are.

Mr. McLEAN: That is what I mean.

Sir HENRY THORNTON: I think our crews and our captains, and our technique, if we may call it such, will compare favourably with those of any other water transportation company.

Mr. McLEAN: Was the American Marine run in that fashion?

Sir HENRY THORNTON: I do not know enough about it to express an opinion.

Mr. DUFF: Sir Henry, your freight and passenger rates are no lower than those of any other company, are they?

Sir HENRY THORNTON: Well, they are no lower than they have to be. You must remember that water competition, or water transport is not subject to the same rules as land transport. It is a much more open proposition, and we have to meet the rate, whatever it may be, unless it is too outrageously low.

Mr. DUFF: You are not in the North American Conference yet.

Sir HENRY THORNTON: No, we are only listening at the key-hole.

Mr. CANTLEY: Sir Henry, I asked a question which, as far as I can see, has not been answered, and that is whether you have any independent valuation of the vessels. I do not think we have that shown.

Sir HENRY THORNTON: Not of the entire fleet.

Mr. CANTLEY: You have forty-six vessels with a tonnage of 312,900. Deducting a reserve from the total valuation shows the book value of the vessels as about \$145 a ton, which is practically four or five times what they are worth.

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: Now why carry that on? Why not wipe that off and get down to a business proposition?

Sir HENRY THORNTON: I would have no objection to such a proposal.

Mr. CANTLEY: Would it not be an advantage?

Sir HENRY THORNTON: I think it would be an advantage in this way; that we would be on a sound basis; and it would be certainly an incentive to the management, and an encouragement to those who are operating the property to know that they were not up against a thoroughly hopeless proposition.

Mr. CANTLEY: Why not have it done?

Sir HENRY THORNTON: That is for this Committee to recommend if it wishes.

Hon. Mr. STEVENS: There is one feature about it that is wholly unfair to the operating staff; that is to charge the interest, which you do each year, on \$62,000,000, when it is quite clear that it is an impossible task for them to earn such an interest above their operating expenses.

Sir HENRY THORNTON: Quite so.

Hon. Mr. STEVENS: And that goes on accumulating year by year, until now it has reached \$25,590,000. It is not a reasonable charge to make at all.

Mr. CANTLEY: The same thing applies to depreciation.

Hon. Mr. STEVENS: Absolutely; I quite agree with what Colonel Cantley says; that is to cut down the capital value of the ships to present-day values. For instance, if this were a private company, it would have gone into liquidation long ago.

Sir HENRY THORNTON: Oh, yes.

Hon. Mr. DUNNING: It never would have been out of liquidation.

Hon. Mr. STEVENS: No, it would have gone into liquidation long ago, and taken its loss.

Sir HENRY THORNTON: The assets would have been written down to something reasonable.

Hon. Mr. DUNNING: The history of the Government Merchant Marine, however, must not be forgotten. It came into existence as practically a government service.

Hon. Mr. STEVENS: Surely.

Hon. Mr. DUNNING: It was not until the Canadian National Railways took it over that this question could arise at all. That is the State was operating the service directly, and the State naturally wanted to know, or at least I presume Parliament wanted to know, what the exact position was. The Canadian Government Merchant Marine is now really an operating company for the State. The present picture enables the State to see exactly what that has cost the State. If you go writing it down, you do not change the relationship of the account. The State has invested that much money.

Mr. DUFF: They have known that for three or four years.

Hon. Mr. STEVENS: We know that we have lost seventy-five per cent of the valuation of these ships in simply a world-wide reduction in values, entirely aside from depreciation in operation. Just simply that the tonnage to-day is not worth more than a given amount, nor is it likely to rise to any extent; if anything, it is likely to fall.

Hon. Mr. DUNNING: The tonnage never was worth what these ships cost at any time.

Hon. Mr. STEVENS: Possibly. Then, let us face that fact, and reduce that capital cost and then you will at least only charge up in interest about 25 per cent of what you are charging now. That is included, I suppose, in this closed voyage.

Sir HENRY THORNTON: Is your thought to reduce the capital liability to something commensurate with the earning capacity of the proposition?

Hon. Mr. STEVENS: Certainly.

Hon. Mr. DUNNING: There is no interest charge included in the voyage proposition at all. There is no interest charge against the operating account?

Sir HENRY THORNTON: Oh, no.

Hon. Mr. DUNNING: What really interests the staff of this institution is the operating account, into which none of the capital items are charged; and this should be said also, Sir Henry, that the Minister of Finance is taking the loss, the State is taking the loss as the vessels are turned in. That is to say, if one is sold, if the lowest value, the note is cancelled, and the interest is cancelled?

Sir HENRY THORNTON: That is true.

Hon. Mr. DUNNING: The note and interest are cancelled as the vessel ceases its active operation as a unit of the Merchant Marine, so that there has been a progressive wiping out of the capital. What is proposed now is a drastic wiping out of it, and that I am afraid would simply confuse the picture in the eyes of the country. So far as the staff and operating end of the Merchant Marine is concerned, this country, I am sure, would be perfectly happy if they could, as an operating proposition, regardless of interest charges, and other items such as that, come off even or better than even.

Mr. CANTLEY: Mr. Chairman, I do not think it would confuse the country at all. I think it would clear the matter up. The Minister says the interest is not charged against the operating expenses?

Hon. Mr. DUNNING: That is right.

Mr. CANTLEY: I understand the reverse is true, in regard to depreciation.

Hon. Mr. DUNNING: No, there is no decreasing of capital in the operating account.

Mr. DUFF: What you might do is, in your statement of assets and liabilities, to put in an item for depreciation. First, put the total book value, \$64,000,000, and then put an item making the net value the exact value of the ships. That perhaps would satisfy everybody? At the present time, you are asked to show \$62,000,000, and you have only about \$10,000,000.

Mr. McLEAN (Melfort): Are not the costs charged against the repairs?

Sir HENRY THORNTON: The up-keep is charged, yes.

Mr. McLEAN: That straightens out with the depreciation?

Sir HENRY THORNTON: You will find that under Operating Expenses.

Mr. McLEAN: That takes the place of the actual value of the ships now in service?

Sir HENRY THORNTON: No, there is a difference between repairs and depreciation.

Mr. McLEAN: It is a general depreciation. I notice the ships have been kept up to the mark, to justify the higher classification.

Sir HENRY THORNTON: That means the insurance classification.

Hon. Mr. CHAPLIN: There should be a depreciation equal to bringing it down to the selling value, or the plain value of the ships. Now, that could be done without in any sense affecting the general statement.

Hon. Mr. DUNNING: That is sound. As a matter of fact, that is already done for insurance purposes.

Sir HENRY THORNTON: Yes.

Hon. Mr. CHAPLIN: It should be done in the regular account.

Mr. DUFF: That would be very simple. It would mean only one item in your asset.

Hon. Mr. DUNNING: It would not interfere with the general picture at all.

Hon. Mr. CHAPLIN: It means that you are bringing it down to the actual value, and that is the way it should be in my judgment.

Mr. CANTLEY: May I ask what the policy of the management, is in regard to the sale of vessels that it is absolutely impossible to make any money with? You have a total of 46 vessels and twenty of them average under 5,000 tons. Those vessels cannot pay their way in the North Atlantic. It is impossible for them to do it. A vessel of 10,000 may, but the others cannot. What is your policy in regard to getting rid of those vessels?

Sir HENRY THORNTON: I think I am safe in saying that practically all the fleet is to-day in service.

Mr. DOHERTY: With the exception of two steamers.

Sir HENRY THORNTON: Yes. To sell any of the present vessels would mean one of two things: either it would have to be replaced with a new vessel, or a service of some sort would have to be abandoned.

Mr. CANTLEY: You have five of them laid up in Halifax, have you not?

Sir HENRY THORNTON: No, we have all our vessels in service, except two.

Mr. CANTLEY: But your report says, "Except five laid up in Halifax."

Sir HENRY THORNTON: They may have been laid up temporarily. Probably they were laid up temporarily.

Mr. CANTLEY: When they were laid up, they could not make any money for you.

Sir HENRY THORNTON: That may be, but the fact remains that the fleet to-day, substantially speaking, is employed in services.

Mr. CANTLEY: At a loss?

Sir HENRY THORNTON: At a loss, yes.

Mr. CANTLEY: These vessels I refer to are only operated at a loss. That is a statement I make without any fear of contradiction.

Sir HENRY THORNTON: That may be true of the whole fleet, but let me again say that the fleet is to-day employed in services. Now, if any vessels are sold, one of two things must necessarily happen: either a service is withdrawn, or a new vessel must be built to replace a vessel that has been sold.

Mr. CANTLEY: What is the object of keeping up a service that does not pay?

Sir HENRY THORNTON: If this Committee should pass a resolution—?

Mr. CANTLEY: Why keep on a vessel that cannot pay?

Sir HENRY THORNTON: If you want to abandon the Canadian Government Merchant Marine, it is within the province of this Committee to say so. It all depends on what you want to do with this experiment you have got.

Mr. STEWART (Leeds): If some of these services were discontinued would not a demand arise for similar services, with subsidies from the Government?

Sir HENRY THORNTON: Unquestionably, that is probably what would happen, and as we say, we saved about \$160,000 in subsidies last year.

Mr. DUFF: Did you put any steamers on new services this year, or last year?

Sir HENRY THORNTON: I do not think we did. There were no new services, were there, Mr. Doherty?

Mr. DOHERTY: Just the temporary service we had on in the West Indies.

Sir HENRY THORNTON: Nothing but the temporary service between Halifax and the West Indies.

Mr. DUFF: You did have a service to the West Indies, but did you put on a new service to Porto Rico?

Mr. DOHERTY: We had two services within the last two months. We were asked by shippers in Nova Scotia to give them a frequent connection with Porto Rico. We made these two sailings principally for experimental purposes. Up to the moment, they seem to be showing reasonably good results.

Mr. DUFF: I would not think so. They cannot. That is a trade I am in myself. I carry the goods a dollar a cask less than you do, and I say you are losing a lot of money, and you have no business to interfere with private enterprise.

Mr. DOHERTY: We are meeting the requests of the shippers of Nova Scotia.

Mr. DUFF: They could ship by New York or by private vessel to Porto Rico.

Mr. DOHERTY: They prefer this as against shipping by New York, where they must tranship.

Mr. DUFF: That may be right. I am not objecting to the present condition where we have got those ships and must do something with them, but I do not think it is right for you to enter into new services and interfere with private enterprise, especially when you have to carry the goods at a higher rate or make the private interest come down to your rate. I say that is not fair.

Sir EUGENE Fiset: What kind of cargo do you carry?

Mr. DUFF: Salt.

Sir HENRY THORNTON: That has a useful result.

Mr. BELL (St. Antoine): Regarding the use of these vessels in the West Indies trade from Canada; how many new vessels are being built?

Sir HENRY THORNTON: Five.

Mr. BELL: Are each of these being incorporated as a separate company?

Sir HENRY THORNTON: No, that is all in a company known as the Canada-West Indies Company.

Hon. Mr. DUNNING: Incorporated at the last session of Parliament.

Mr. BELL: Will we be able to tell when the next report comes out what it is costing us in the Canadian-West Indies trade?

Sir HENRY THORNTON: You will know about it.

Mr. BELL: Or will that be consolidated with the other services?

Sir HENRY THORNTON: We will be able to tell you exactly what that service is doing from the point of view of revenue, expenses, and anything else that you want to ask us about it.

Mr. BELL: Will that be the same regarding Australia?

SIR HENRY THORNTON: We can tell you anything about any of the different voyages and services which we have to-day.

MR. BELL: We can get that information?

SIR HENRY THORNTON: We have got it. We propose to give it to you.

MR. BELL: It is not here?

SIR HENRY THORNTON: No, of course, it is not here. That is the very thing I have been telling you about.

MR. BELL: We have to ask for it?

SIR HENRY THORNTON: No, no. Later on we will be able to show you what each service does; the number of voyages; the revenue; the expenses, and everything in connection with it but I would prefer to give that to this Committee in camera.

MR. BELL: I am sorry.

SIR EUGENE Fiset: Is each ship incorporated as a separate company by itself?

SIR HENRY THORNTON: It is incorporated as a separate company, but the figures we have given you represent the operation of the fleet as a whole.

HON. MR. DUNNING: There is one interesting question that Mr. Duff brought up. Did I understand him to say you were able to get a dollar a ton more than he was getting? I think you should be commended for that.

MR. DUFF: Perhaps I did not fully explain it. Mr. Doherty stated that this service was asked for by some Halifax shippers. These shippers sometimes have small lots shipped via New York. The rate via New York is a little more than the Canadian Government Merchant Marine are getting. That is the reason they are anxious to have it go by the Canadian Government Merchant Marine, but you know how much these boats lose, and they could get it very much cheaper if they would ship larger lots in small schooners.

HON. MR. CHAPLIN: They would pay more for the steamer service, naturally, then they would for the sailing service.

HON. MR. DUNNING: And getting merely a sailing service?

MR. DUFF: Yes.

SIR HENRY THORNTON: It all depends on the wind.

MR. DUFF: Your boats do not steam unless there is a draught, and then they are pretty slow at that.

HON. MR. STEVENS: Might I ask Sir Henry an explanation of why the service is taken off from Vancouver to Bristol?

SIR HENRY THORNTON: It was conducted at such a terrible loss that I thought we could not stand it any further. It was an awful proposition.

HON. MR. STEVENS: You used to pick up any barley cargoes from the Pacific coast?

SIR HENRY THORNTON: Barley cargoes? I do not know that we did.

MR. DOHERTY: Not latterly, Mr. Stevens. I think on a few occasions, when first operating, we did.

HON. MR. STEVENS: I suppose that is a question that should be left over.

SIR HENRY THORNTON: We thought long and hard about that, Mr. Stevens, and finally concluded that it was such a hopeless proposition that we had better take the vessels off. And also, representations were made at that time and it brought out the fact that there were other private services that could fill the transportation requirements.

MR. McLEAN (Melfort): If you had been asked if there were not steamship services, and you were anxious to establish one, along these lines, would you be in favour of it?

Sir HENRY THORNTON: I do not think having in view the demands for the expenditure of money in other directions that it would be a wise thing to embark upon an extensive Government Merchant Marine service to-day, assuming that we had nothing at all.

Mr. McLEAN: Quite so. I agree with you, but I want to base a question on that. Now that we have this service, and have the organization and experience, and know just what it is doing for us, and what it is costing us—you can decline to answer this if you wish—do you see anything to prevent developing this service ultimately, at a reasonable rate of speed, into a service comparable in results with the Canadian Pacific Steamship service?

Sir HENRY THORNTON: It is going to be probably a long and up-hill fight, but as the Dominion increases in its commerce, and in its production, I think it is by no means a hopeless proposition.

Mr. McLEAN: Quite so. You see no reason why the Dominion of Canada cannot control a reasonable percentage of its own shipping in that way?

Sir HENRY THORNTON: As long as we have got what we have, I think we should continue to do the best we can with it, and I do not regard it as ultimately a hopeless thing. In fact, I am not so sure to-day, notwithstanding the deficit, I am not so sure to-day but what the expense of the Canadian Government Merchant Marine is contributing materially to the trade of Canada.

Mr. McLEAN: Quite so. You will have to face, as it says here on page 6: after a review of last year's conditions that the full force of such competition has not yet developed. I take it that that means that you will have to look forward to a better service, an increased and more up-to-date service in size and speed.

Sir HENRY THORNTON: Certainly, if we are to hold our place.

Mr. CANTLEY: The worst is yet to come, that is what that means.

Sir HENRY THORNTON: No, I should not say that, Colonel. I do not know whether we should take so pessimistic a view of it. Undoubtedly, one of the disadvantages under which the Canadian National suffers as compared with the Canadian Pacific Railway, is the absence of strong ocean instrument. We suffer from that, week by week, and year by year; it is something we cannot help. We have to do the best we can with it, and we have to meet that with close co-operation with outside steamship companies.

Mr. CANTLEY: But, Sir Henry, at the top of page 6 you say "Our steamers, on account of their size, speed and equipment, are placed at a great disability in competing with other tonnage operating and under construction." That is all quite true?

Sir HENRY THORNTON: Quite true.

Mr. CANTLEY: I think I am justified in saying "the worst is yet to come," and is not that what you do say?

Hon. Mr. DUNNING: That is qualified by service with other lines between Canada, the United Kingdom and the Continent. That is, one particular area is referred to.

Mr. CANTLEY: It is the greatest area you have, and that applies equally to other areas, there is no question about that. I see on page 9 you have, "balance outstanding on vessels sold, \$90,000." How long has that been outstanding there?

Sir HENRY THORNTON: Can you give the details of that, Mr. Cooper?

Mr. COOPER: Do you mean the \$90,000 due in October of 1929?

Mr. CANTLEY: How long has it been outstanding?

Mr. COOPER: About two years. It is not overdue.

Sir HENRY THORNTON: It is part of the arrangement under which that particular vessel was sold?

Mr. COOPER: Yes.

Mr. CANTLEY: It is a pretty long credit. What about the balance?

Mr. COOPER: Thirty-six thousand dollars was due in March, 1928, and was paid. Thirty-six thousand dollars is due in August of 1928.

Mr. CANTLEY: Was that three years ago?

Mr. COOPER: These boats were sold about three years ago, yes.

Mr. MILNE: How many ships have you sold all together??

Sir HENRY THORNTON: That was gone into pretty carefully, as I recall last year. The figures were furnished in respect to the tonnage. Perhaps you will answer the question, Mr. Doherty, and say how many vessels have been sold.

Mr. DOHERTY: Eighteen vessels.

Mr. DUFF: I thought the total fleet was sixty-three.

Mr. DOHERTY: Sixty-six originally; we have forty-six now operating, plus eighteen sold, that is sixty-four. Two were lost.

Mr. JELLIFF: In regard to the proposal of Colonel Cantley to discontinue those boats of five thousand tons—is there not an indirect advantage accruing to your railway to warrant the retention of those services?

Sir HENRY THORNTON: I would not advocate that. I might answer your question in this way: We would not advocate the sale of these vessels if it meant the abandonment of the service that they are in.

Mr. CANTLEY: No matter what the loss?

Sir HENRY THORNTON: Under the present conditions, the present laws.

Mr. CANTLEY: I venture to say these vessels are losing more money than the total trade you are bringing.

Sir HENRY THORNTON: That can be easily checked. Colonel. Let me say this with respect to this whole Canadian Merchant Marine service: the railway inherited this service; it was given to us. We are doing the best we can with those services under the circumstances that surround them. In some respects which I have already stated, I think they are a useful implement to Canadian manufacturers and traders; but if Parliament in its wisdom would wish to abandon that service, well, that is up to Parliament. We can only do the best we can with what we have been given to work with.

Mr. CANTLEY: But will not Parliament naturally be influenced largely by what this Committee recommends?

Sir HENRY THORNTON: If I may be so presumptuous, I should say that Parliament would listen attentively to any suggestion that this Committee might make. What Parliament would do, I cannot predict.

Hon. Mr. STEVENS: Are some of these less than 5,000-ton vessels used in the Pacific coastwise trade?

Mr. DOHERTY: We have four steamers operating from Vancouver and Californian ports.

Hon. Mr. STEVENS: How is that service?

Mr. DOHERTY: It has done reasonably well up to the present time.

Mr. BELL (St. Antoine): Sir Henry, I notice that you have reduced the number from sixty-six to some forty-six. You spoke about the wisdom of Parliament, but is it not really that Parliament should listen to the management of the Canadian National Railways, who are operating these vessels, as to what they should do with the future of the Canadian Government Merchant Marine? That is why I think this Committee should try to ascertain from you

whether it is your ultimate idea to reduce the number of boats and eventually get rid of the Merchant Marine; and furthermore, is Parliament interfering with you in trade agreements such as with the West Indies, whereby we undertake to add to the Merchant Marine when perhaps it is not wise to do so?

Sir HENRY THORNTON: No.

Hon. Mr. DUNNING: The facts of your statement there are wrong. We do not so undertake. My point is that the statement regarding the West Indies Treaty is not correct, Mr. Bell, that we undertake to add to the Merchant Marine. We did undertake to see to it that a steamship service was provided, and we called for tenders for subsidies in the usual way, and it was not until an examination had been made of what that subsidy meant to this country, and to the West Indies, that it was decided by Parliament that it would be better business to own the boats ourselves. There was a full-fledged debate in Parliament on that point. The West Indies Treaty did not involve capital investment in ships on our part unless we chose to so handle the matter. The subsidy method was the method contemplated by the treaty originally.

Mr. BELL: We are building up the Merchant Marine then, are we not?

Sir HENRY THORNTON: If I may answer the question in this way: the Canada-West Indies Treaty was passed. That having been done, then I think what was done subsequently was wise. I am not discussing the wisdom of the Treaty, but the Treaty carried with it a certain obligation, and the way in which that obligation was fulfilled was a wise method of doing it.

Mr. BELL: Then I return, sir, to what you have said, that that was the wisdom of Parliament. I think possibly the shoe was on the other foot. It should be the wisdom of the transportation advising Parliament.

Sir HENRY THORNTON: I could not advise Parliament with respect to what trade treaties they make. But, when Parliament makes a treaty involving certain obligations with regard to transportation, and they ask me what I think should be done, then I make my recommendation. I did it that time. I said, "I think the wise thing to do is to build these ships, and operate them ourselves."

Mr. BELL: That does not help very much in getting rid of the Merchant Marine ships you have on hand, if we are to build more. Your idea was to get rid of the ships?

Sir HENRY THORNTON: No; perhaps I did not make myself clear. As far as the officers of the Canadian Government Merchant Marine are concerned, they start with the fact that a trade treaty has been passed which involves certain water services. Now, that is fixed, and cannot be gotten away from. It is done by Parliament. Then, the Government asks me, "What do you recommend in view of the fact that that treaty has been passed?" Well, my recommendation was that we should build and operate the boats ourselves, and I think that is the thing to do. In a sense it may add to the Government Merchant Marine service, but I cannot help that.

Mr. McLEAN: Do you consider that the building of these new vessels for the West Indies' service will enable you to get rid of some of the older and less suitable boats you have now?

Sir HENRY THORNTON: No.

Mr. McLEAN: None at all?

Sir HENRY THORNTON: No.

Mr. McLEAN: What will you do with those you took off the route?

Sir HENRY THORNTON: The total Canada-West Indies' services involved the construction of five new boats, and the reconditioning of two others, did it not?

Mr. DOHERTY: That is right, sir.

Sir HENRY THORNTON: Of two others. Now, that is a unit, and stands apart by itself, but it will not enable us to take off any service.

Mr. McLEAN: I see. It is a new service?

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: There are two vessels, the *Fisher* and *Forester*; you are going to take them off that service, when the new go on?

Sir HENRY THORNTON: What vessels were we going to recondition?

Mr. DOHERTY: It will be the *Fisher* or *Forester* or two other steamers that will be reconditioned. In putting on these three new steamers to the eastern group, that is to Demerara, we will automatically release the two boats that have been substituting the two passenger boats and the two freight boats. Just what we will do with those at the time remains to be decided.

Mr. CANTLEY: You are going to displace four of your existing boats?

Sir HENRY THORNTON: Not yet. I do not know.

Mr. DUFF: Under the treaty, have you not to call at Jamaica and other places in the western group?

Sir HENRY THORNTON: It will be a subsidiary service.

Mr. CANTLEY: Turning to page 6, and referring to losses. You say there were not serious losses except on two different occasions. May I ask what that vessel was?

Sir HENRY THORNTON: Will you give that information, Mr. Doherty?

Mr. DOHERTY: The *Canadian Raider* in one instance was in collision at London, in the River Thames.

Mr. CANTLEY: She is now in Hudson bay?

Hon. Mr. DUNNING: Oh, no, Port Burwell.

Mr. DOHERTY: That is right, at Port Burwell.

Mr. DUFF: That is in Hudson bay.

Hon. Mr. DUNNING: I wish the members of this Committee would learn some of the geography of Hudson bay. Port Burwell is only about fifteen hundred miles away from it.

Mr. DUFF: It is in the most important part of it, the Straits.

Hon. Mr. DUNNING (Referring to map): Port Burwell is on the North Atlantic. It is not even on the Hudson straits. It is off the eastern entrance to Hudson straits; on Ungava bay. It is on the way to Hudson bay.

Mr. CANTLEY: She is now in what condition?

Mr. DOHERTY: She was on the ground.

Hon. Mr. STEVENS: Is she a total loss?

Mr. DOHERTY: We do not expect she will be, but that will depend on the report we get.

Mr. CANTLEY: You would hope she was not a total loss?

Hon. Mr. STEVENS: How was she wrecked?

Mr. DOHERTY: She was blown away from her anchorage and blown ashore, and it was because of that accident she had to winter at Port Burwell.

Hon. Mr. DUNNING: There is a full report of that that Mr. Carter tabled the other day respecting the Hudson's Straits work. She dragged her anchor, and drifted ashore, and sprung a plate and got water in her hold, and it was considered wise to leave her there for the winter. That is as I understand it.

Hon. Mr. STEVENS: What time of the year was that?

Hon. Mr. DUNNING: It was late.

Sir HENRY THORNTON: Too late to get out.

Sir EUGENE Fiset: What was the other accident?

Mr. DOHERTY: A collision in the river Thames.

Hon. Mr. DUNNING: The same boat.

Sir EUGENE Fiset: Did you have an accident outside Pointe au Bouleau last year?

Mr. DOHERTY: Yes, we had a collision in the fall there; that is not included under the heading that we call "serious accidents".

Sir HENRY THORNTON: Do you want to go ahead?

Mr. HENRY: Operating revenues, vessels, close voyages, 1927, \$10,234,560, as compared with \$10,955,365.26. Total \$10,223,964 as compared with \$10,089,437.

Hon. Mr. DUNNING: I think we went over that.

Sir HENRY THORNTON: Then I do not think there is anything else now, unless you want to consider, as you did last year, each individual service. We have given you practically all of the figures with respect to the general figures relating to the operation of the Canadian Government Merchant Marine. I think there is nothing left now but to consider, if you wish, each individual service.

Mr. DUFF: These accounts show, due by agents, about \$600,000. Is that freights that were prepaid?

Mr. COOPER: Would you repeat that, please?

Mr. DUFF: Is that freights to be collected at destination and not yet remitted by the agents?

Mr. COOPER: The amount due by agents is the amount outstanding collectable by our agents, and not remitted.

Mr. DUFF: I beg your pardon?

Mr. COOPER: It is the balance due by agents of December 31, 1927. It represents the balance carried by our agencies, not collected, and therefore not remitted.

Mr. DUFF: Freights which were not prepaid?

Mr. COOPER: It may be prepaid too.

Mr. DUFF: But not in your hands?

Mr. COOPER: No.

Sir HENRY THORNTON: That will eventually come into our hands.

Mr. DUFF: Are all your freights prepaid or do they pay at destination?

Mr. COOPER: Both ways; more or less prepaid.

Mr. DUFF: Do you insure your freights?

Mr. DOHERTY: No, we do not.

Mr. COOPER: We insure against damage to freight.

Mr. DOHERTY: Do you mean, Mr. Duff, whether we cover the collected freight charges?

Mr. DUFF: Yes, the collect freight charges.

Mr. DOHERTY: No, we do not.

The CHAIRMAN: Is it the wish of the Committee that we go into each of these?

Several MEMBERS: No.

The CHAIRMAN: I do not think we need to.

Mr. DUFF: I am content.

Hon. Mr. DUNNING: It is entirely up to the Committee. I only say this: that if we are examining the details of this company's business, which would be of great interest to its competitors, we should sit privately; but if the Committee does not desire to investigate the individual vessels and services, that is the only question in which private information is given. It is here if the Committee wants it.

Mr. BELL: I have certain questions to ask regarding the Australian service, and regarding rates. Unfortunately, I was out of the room when the suggestion was made that this be taken up in camera.

Sir HENRY THORNTON: The point is that if we reveal some service here, which is profitable, we will at once direct competition to that service.

Mr. DUFF: Sir Henry, do you not think your competitors know whether your service is profitable or not?

Sir HENRY THORNTON: I do not think so.

The CHAIRMAN: Mr. Bell, you had some questions you wished to ask. I think those questions should be put in camera.

Mr. BELL: Very good, Mr. Chairman.

The CHAIRMAN: Then I ask the reporters and any one else present not a Member of Parliament, or any one not an official of the Canadian National, or the Canadian Government Merchant Marine, to please retire.

The Committee went into camera.

The Committee adjourned.

SESSION 1928
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6—APRIL 25, 1928

WITNESS:

Sir Henry Thornton, President, Canadian National Railways.

Assisted by: Mr. R. A. C. Henry, Director, Bureau of Economics, Mr. S. J. Hungerford, Vice-President; Major G. A. Bell, Director, C. N. Railways, and other officials.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

WEDNESDAY, April 25, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met for business at 11 o'clock a.m. this day, Mr. Goodison, the Chairman, presiding.

The following Members of the Committee were present:—

Messieurs: Bell (St. Antoine), Cantley, Stewart (Leeds), Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, and Power—12.

In attendance: Sir Henry Thornton, president, Mr. Hungerford, Mr. Robb, Major Bell, vice-presidents; Mr. R. A. C. Henry, Mr. Cooper, Mr. Doherty, and numerous other officials of the C. N. Railways and Canadian Government Merchant Marine.

The chairman called the meeting to order and stated that all the members of the Committee present had a copy of the Estimates in their hands, and if agreeable they would turn to page 3, at the item of \$39,000,000.

Sir Henry Thornton proceeded to give the details in connection with this item, assisted by Mr. Henry. Considerable discussion followed.

Sir Henry Thornton filed statement of the Financial and Capital Requirements for the nine months ending December 31, 1927, and the calendar year 1928, to be placed in the record.

General discussion on the hotel situation, with special reference to Halifax and Vancouver. Statement under caption "Halifax Hotel" was re-read by Mr. Henry, for the information of a member of the Committee who had not been present at a previous meeting of the Committee when that matter had been gone over.

Some discussion respecting the terminal situation in Quebec City, and the intentions of the Canadian National Railways in that connection.

Sir Henry Thornton filed statement respecting Wooden Cars, in response to a question previously asked by Col. Cantley; same to be incorporated in the record.

On motion of Sir Eugene Fiset the Annual Report of the Canadian National Railway System for the year ended December 31, 1927, and the Estimates for 1928-29, were adopted.

Some discussion arose as to the Committee's report to the House. After discussion,—

Mr. McLean (Melfort) moved, seconded by Mr. Jenkins:—

That the Chairman submit a draft report to the Committee at their next meeting, for consideration before presentation to the House.

Agreed to.

After discussion it was decided by the Committee that the next meeting would be held on Tuesday, May 1, at 11 o'clock a.m. in Room 429, with the understanding that Sir Henry Thornton and certain of his officials would be present. . .

Sir Henry Thornton expressed the thanks of his officers and himself to the Committee for the sympathetic consideration they had given the report and the facts presented to them; and also for the many helpful suggestions of the Committee; that it had become a pleasure to come before them each year and discuss the affairs of the railway.

The Committee adjourned.

MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

WEDNESDAY, April 25, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: If you will come to order we will start on the Estimates. You all have a copy of the Estimates, and if you will turn to page 3 you will see there the item of \$39,000,000.

Sir HENRY THORNTON: Perhaps the best way to proceed would be to give a summary of the financial requirements and resources, applicable thereto, for the year ending December 31, 1928. The particulars are as follows:—Interest on Funded and Other Debts, \$40,564,000—using round figures—Grand Trunk Pacific Guaranteed Interest, \$1,108,000; Dividends on Grand Trunk 4 per cent Guaranteed Stock, \$2,433,000; Sinking Fund Payments, \$1,000,000; Equipment Principal Payments, \$7,841,000; Retirements and Capital Obligations, \$781,000; which makes a total of Financial Requirements of \$53,740,000; less, Resources, excluding Eastern Lines, \$41,815,000; Deficit, Eastern Lines, excluding interest on Halifax and Southwestern Railway First Mortgage Bonds, \$155,645. That item represents \$6,193,000; and adding the \$41,800,000 and the \$6,193,000, there is a total deduction of \$35,622,000, which leaves a net financial requirement of \$18,118,000. To this there is to be added General Additions and Betterments, \$25,685,000; New Equipment Series K, \$1,000,000; Discount on Securities Issued, \$545,000; totalling, \$45,348,000. Less Financial Requirements for Eastern Lines, to be provided for in the Estimates of the Department of Railways and Canals, as follows:—Deficit in Net Income due to the operation of the Maritime Freight Rate Act, 1927, \$1,930,000; Deficit in net income due to causes other than the operation of the Maritime Freight Rate Act, 1927, \$4,118,000. The last two items represent a total of \$6,348,000, which leaves a final total of \$39,000,000.

Mr. JELLIFF: Could you give us an idea of what the \$25,000,000 required for betterments covers?

Hon. Mr. DUNNING: Would it not be better to take each one of these items in its order, Mr. Jelliff? I would just suggest that Mr. Henry give a brief explanation of each of the items read by Sir Henry Thornton. Many of them have been gone over before, but it is just as well to recapitulate each year and see where we are.

Mr. HENRY: The first item is Interest on Funded Debt. For comparative purposes, you will find the Interest on Funded Debt on page 15 of the report, Interest on Funded Debt, \$40,448,274, Item 546.

Mr. JELLIFF: It is a little more this year?

Mr. HENRY: Yes. The second item is Interest on the Grand Trunk Pacific, \$1,108,000.

Hon. Mr. DUNNING: Explain how that arises, Mr. Henry.

Mr. HENRY: That consists of the following items:—4 per cent Grand Trunk Pacific, Lake Superior Branch, First Mortgage Bonds.

Hon. Mr. DUNNING: Guaranteed by the Dominion?

Mr. HENRY: Guaranteed by the Grand Trunk Railway Company of Canada. 4 per cent Grand Trunk Pacific, Prairie Section, A Bonds, and Prairie Section, B Bonds. Those are the amounts due on April 1st and October 1st, 1928, and they total \$1,108,000.

Hon. Mr. DUNNING: Which bonds are those?

Mr. HENRY: Those were the bonds which the Grand Trunk Railway Company of Canada, under the 1903 agreement, were obligated to guarantee, the second mortgage bonds; the Government guaranteed the first mortgage bonds.

Hon. Mr. DUNNING: And, on our becoming the owners of the old Grand Trunk, we inherited their guaranteed obligations?

Mr. HENRY: The third item, amounting to \$2,433,333, represents the guarantee on what was known as the Grand Trunk Guaranteed stock.

Hon. Mr. DUNNING: That is the old Grand Trunk?

Mr. HENRY: The old Grand Trunk Guaranteed Stock, under the arbitration arrangement.

Mr. HARRIS: What item would that be in last year's business?

Sir HENRY THORNTON: You dealt with that at this time last year for last year. That appears again this year, to be dealt with for this year. It is an annually recurrent item.

Mr. HARRIS: Where is it reflected in last year's statement?

Sir HENRY THORNTON: If I remember rightly, we had the same discussion last year with respect to all of these recurrent items. In fact, they have been coming up year after year.

Mr. HENRY: It is the 5th item on page 26 of the Annual Report, Mr. Harris.

Hon. Mr. DUNNING: 4 per cent Perpetual Guaranteed Stock. The same item of Interest.

Sir HENRY THORNTON: Does that answer your question, Mr. Harris?

Mr. HARRIS: Yes.

Mr. HENRY: The next item is Sinking Fund, \$1,012,425.

Hon. Mr. DUNNING: These Sinking Fund payments relate to specific bond issues?

Mr. HENRY: Yes.

Hon. Mr. DUNNING: There is no need to detail them, except to make it clear that there is no sinking fund in connection with every bond issue, but only in respect to certain of them that are still running, of the old corporate obligations.

Mr. HENRY: They are Canadian Northern Guaranteed Debentures, National Transcontinental Branch Lines, and several other issues with sinking fund provisions. The next item is Equipment Principal Payments, \$7,841,000. The Equipment Series G, H and J; the Canadian National Equipment Series F; the old Grand Trunk Railway Company of Canada; Equipment on the Grand Trunk Western Lines; Grand Trunk New England Lines, a small equipment issue there; and Equipment Series A, B, C, D and E, Canadian Northern Railway System. The next item is \$780,000, Retirements, Capital Obligations. This represents the amount required to retire Grand Trunk Junction bonds.

Hon. Mr. DUNNING: There are some other items too?

Mr. HARRIS: I do not understand what he is talking about.

Sir HENRY THORNTON: We are dealing with the items entitled Retirements, Capital Obligations, and Mr. Henry is trying to give you the details of that item of \$781,000, and he got so far as to say that part of it was due to the contemplated retirement of the Grand Trunk Junction Railways bonds.

Mr. HENRY: They appear on Page 27, near the bottom.

Mr. HARRIS: Just read the item.

Hon. Mr. DUNNING: 5 per cent Mortgage Bonds, Grand Trunk Junction.

Mr. HENRY: Due January 1, 1934.

Sir EUGENE Fiset: It is hard for the members of this Committee, not having before us the written explanations, as read by Mr. Henry, to follow these items.

Sir HENRY THORNTON: All of these items are in the Annual Report itself.

Mr. JELLIFF: The amount of those bonds in that item is \$918,960.

Mr. HENRY: Some of them have been retired already. They represent a first mortgage upon what is known as the Grand Trunk Junction Railway, which extends from 49th Street to Elsdon Street, Chicago. The purpose of retiring these bonds is to permit the discharge of the mortgage on certain properties sold years ago to the Santa Fe, and in connection with which the Canadian National Railways will receive \$1,300,000. That discharge cannot be given until these bonds are paid off, so the purpose of discharging this mortgage is to permit that transaction to be completed. The total of the items just mentioned is \$53,740,179. As against that, there are certain resources excluding the Eastern Lines. These resources are estimated at \$41,814,919, and they represent the estimated difference between the revenues and expenses for the coming year. Of those resources, \$6,192,000 represents the estimated resources of the Eastern Lines.

Hon. Mr. DUNNING: Not the resources of the Eastern Lines, but the resources receivable from the Dominion Government with respect to the Eastern Lines?

Mr. HENRY: That is right. Making the net resources for the system, exclusive of the Eastern Lines, \$35,621,919.

Mr. JELLIFF: That item of \$6,192,000 is not included in the \$41,000,000?

Mr. HENRY: That is not included in the \$41,000,000?

Mr. JELLIFF: Then, your resources would be, \$48,000,000?

Mr. HENRY: No, one is a credit and the other is a debit. This leaves the net financial requirements at \$18,118,000. The next item is General Additions and Betterments, amounting to \$25,685,385, which is the net figure. The gross figure is \$28,983,238, and the credit, due to Equipment Retirements, is \$3,297,853.

Sir HENRY THORNTON: This is the point that you raised, Mr. Jelliff?

Mr. HENRY: We have this under two different classifications, the first is General Betterments for the Entire System, \$18,789,910.

Mr. HARRIS: And the figure for last year?

Mr. HENRY: Last year it was \$14,780,566.

Mr. HARRIS: Where is that shown in your statement?

Mr. HENRY: That is shown in last year's budget. That, of course, represented a nine months' figure.

Sir HENRY THORNTON: I will file the statement which is the Financial and Capital Requirements for the Nine Months ending December 31, 1927, and the calendar year 1928.

SELECT STANDING COMMITTEE

CANADIAN NATIONAL RAILWAYS

FINANCIAL AND CAPITAL REQUIREMENTS FOR THE NINE MONTHS ENDING DECEMBER 31, 1927
AND THE CALENDAR YEAR 1928

	Budget 9 Months ending Dec. 31, 1927	Budget Calendar Year 1928	Increase or Decrease
	\$ cts.	\$ cts.	\$ cts.
Interest on Funded and Other Debt....	27,465,489 96	40,564,010 29	13,098,520 33
G.T.P. Guaranteed Interest.....	554,040 00	1,108,080 00	554,040 00
Dividend on G.T.R. 4% Guaranteed Stock.....	2,433 333 33	2,433,333 33	.....
Sinking Fund Payments.....	827,718 39	1,012,425 88	184,707 49
Equipment Principal Payments.....	6,244,000 00	7,841,400 00	1,597,400 00
Retirement of Capital Obligations.....	20,000 00	780,929 72	760,929 72
	37,544,581 68	53,740,179 22	16,195,597 54
Less Resources.....	34,529,000 00		
Resources except Eastern Lines.....	41,814,919 22		
Deficit Eastern Lines except interest Halifax & South Western bonds.....	6,192,999 50	35,621,919 72	1,092,919 72
Net Financial Requirements.....	3,015,581 68	18,118,259 50	15,102,677 82
General Additions and Betterments.....	17,834,418 32	25,685,385 00	7,850,966 68
New Equipment Series K.....		1,000,000 00	1,000,000 00
Discount on securities to be issued....	1,650,000 00	545,000 00	1,105,000 00
	22,500,000 00	45,348,644 50	22,848,644 50
Less financial requirements for Eastern Lines to be provided for in Esti- mates of Department of Railways and Canals.....		6,348,644 50	6,348,644 50
Total.....	22,500,000 00	39,000,000 00	16,500,000 00

Hon. Mr. DUNNING: That gives the details of the item asked for by Mr. Jelliff?

Mr. HENRY: The second item under this classification is Co-ordination. This represents the work done at the junction of two railways, such as the Canadian Northern and the Grand Trunk Pacific—\$84,500. The third item is Hotel Department, \$3,652,758.

Mr. BELL (St. Antoine): Is that your estimate of the hotels?

Mr. HENRY: This is the estimated capital expenditure which will be required for the coming year, in connection with hotels.

Mr. BELL (St. Antoine): I believe Sir Henry was going to give us a statement regarding the hotel situation at Halifax.

Sir HENRY THORNTON: On page 11 of the Annual Report, under the caption "Halifax Hotel" will be found a statement that represents the position of the Company with respect to the Halifax Hotel. I assume that this has been read and it need not be read now. It represents the statement that I would make, and to that I do not know that there is anything I can add. I will be glad to answer any questions that may be asked.

Mr. BELL (St. Antoine): I regret that I have not read this statement.

Sir HENRY THORNTON: It might clarify the situation if that statement were read, and I will ask Mr. Henry to read it.

Mr. HENRY: (Reads):

In 1926 a plan, which had been privately promoted for the erection of a modern hotel at Halifax, was presented to the Board of Directors for consideration. The plan was found to be unsatisfactory in its method of finance and was rejected. The need of more modern hotel facilities

at Halifax was, however, apparent to the Board, and it was recognized that, with the establishment in the winter of 1928-1929 of the new and important services of the Canadian National Steamships between Halifax and the West Indies, this need would become still more pressing. Protracted negotiations ensued between Halifax financiers and the National Railways in an effort to arrive at a satisfactory plan whereby such Railways might participate in the promoters' undertaking, although the inclination of the Board was that the National Railways should itself construct and own a hotel at Halifax. After these negotiations had been in progress for some time the Canadian Pacific Railway was invited by the promoters to participate in their enterprise, but no decision was reached by the Board of that Company until September 26, 1927, when it decided to take up \$350,000 of the Preferred Stock in such enterprise. On July 14, 1927—more than two months prior to this action by the Canadian Pacific—Col. J. L. Ralston, Minister of National Defence, had announced that the possibility of the Canadian National Railways participating financially in the building of a hotel by Halifax promoters had been considered by the Cabinet and that approval would not, without the direct authority of Parliament, be forthcoming for the purchase by the National Railways of minority shares in a privately financed hotel.

On July 20, 1927, the National Railways announced that an appropriate amount for the provision of hotel facilities at Halifax would be included in its annual budget to be submitted to Parliament. On September 23, 1927, further representations that the National Railways should purchase preferred shares in the privately promoted Halifax hotel were considered by the Cabinet; and Col. Ralston immediately notified the President of the Hotel Company that the Cabinet had adhered to the decision reached on July 14, and emphasized the announcement of the intention of the National Railways management to include in the 1928 Budget a railway terminal hotel at Halifax. The decision of the Canadian Pacific to take up the preferred stock of the Hotel Company was made by the Executive Committee of that Railway Company three days later.

The site for the new combined station and hotel of the National Railways at Halifax, upon which foundation work is proceeding, is admirably situated to serve the transportation needs of the community, being on the ocean terminals, and immediately adjoining the present station of the National System. Ample land was available without additional cost. The hotel is to have one hundred and sixty rooms with an ultimate capacity of three hundred rooms. Authority is asked in the Railway Estimates for the expenditure of \$1,250,000. The Board believes that it has acted with wisdom and has followed that course which was essential for the protection of the interests of the National Railways.

Mr. BELL (St. Antoine): I presume, as a result of this private hotel going up, there will be two hotels in Halifax?

Sir HENRY THORNTON: Unquestionably that will be the final result.

Mr. BELL (St. Antoine): According to this statement, the Canadian Pacific were asked to come in to the negotiations for the building of a joint hotel with the Canadian National?

Sir HENRY THORNTON: The original proposal was a private hotel, in which it was suggested that the Canadian Pacific should participate, and they did participate, as has been explained in the statement which has just been read.

Mr. CANTLEY: Could you give us the details on this item?

Mr. HENRY: \$1,250,000.

Sir HENRY THORNTON: Perhaps Mr. Bell may have further questions to ask, and I would suggest, if it is agreeable to the Committee, that we finish this item before we proceed to any other.

Mr. McLEAN (Melfort): The \$1,250,000 will build the hotel and furnish it?

Sir HENRY THORNTON: Yes.

Mr. BELL (St. Antoine): I was wondering whether there was business for two hotels in Halifax?

Sir HENRY THORNTON: That is a matter of opinion. I might observe for what it is worth, that the capacity of the two hotels under contemplation represents the combined capacity of the present existing hotels in Halifax. Without any reflection whatever upon those hotels, they have not been regarded as adequate, nor of a satisfactory character for the hotel trade in Halifax. In other words, this is a substitution of what might be described as really modern hotel accommodation, in an equal quantity to that which existed before, and which has not generally been regarded as of a modern character. It only represents about three hundred rooms. Opinions differ as to what is going to happen, and I do not know that I can tell you any more than that.

Mr. BELL (St. Antoine): How big is the hotel at St. John, the United Hotel there?

Sir HENRY THORNTON: I think it has about two hundred and eighty rooms.

Sir EUGENE Fiset: This amount of \$1,250,000, for the Halifax Hotel, is included, I suppose, in the general statement of \$39,000,000?

Sir HENRY THORNTON: It is part of the total amount asked for Additions and Betterments. We are now discussing the details of the \$25,000,000.

Mr. BELL (St. Antoine): You were negotiating, at one stage, with the promoters of this private hotel?

Sir HENRY THORNTON: Yes.

Mr. BELL (St. Antoine): And the C.P.R. were also asked to come in with the private interests building this hotel?

Sir HENRY THORNTON: Yes.

Mr. BELL (St. Antoine): Then it was announced that Colonel Ralston had, after consultation with the Board of Management, decided that you would really cut off these negotiations, and build your own hotel; is that my understanding?

Sir HENRY THORNTON: The original proposal to participate in what is known as the Lord Nelson Hotel, which is the present private hotel, came to us from the promoters of that hotel. We examined the proposal, and rejected it because we were not satisfied with the financing. In saying that, I mean no criticism, but merely that we thought it was not what we would like to see it. While these negotiations were on, and, as far as I can remember, without knowledge to us, the Canadian Pacific Railway were asked to also participate in the Lord Nelson Hotel. The attitude of our officers, and our Board, has always been that we would prefer to own our own hotel at Halifax. In discussing the matter with the Government, there was some consideration on their part, and they finally concluded that they would reject that proposal, in so far as the Government were concerned. This brought our Board back to its original thought, that we should own and control entirely our own hotel at Halifax, having regard to our new West Indies services, and what we regarded as our predominating interests in the city of Halifax.

Mr. BELL (St. Antoine): Could these private interests build the hotel without the co-operation of either of the railway companies?

Sir HENRY THORNTON: They could, if they had cared to do it.

Mr. BELL (St. Antoine): They were planning on getting the co-operation of one of the railways?

Sir HENRY THORNTON: When any enterprise of a hotel character is projected in any city in Canada, there is always the desire to secure the co-operation and the financial assistance of the Canadian National Railway.

Mr. BELL (St. Antoine): This joint hotel proposition was never talked over with the Canadian Pacific?

Sir HENRY THORNTON: I want to be quite careful to answer your question accurately. I think I can answer your question safely by saying "No," although there were certain conversations, with respect to this situation, in which the Canadian Pacific and ourselves discussed the matter, but neither suggestion from either side was satisfactory to the other, and the matter dropped.

Mr. BELL (St. Antoine): I believe there is some mention made of that hotel in the Canadian Pacific report?

Sir HENRY THORNTON: There is mention made.

Hon. Mr. DUNNING: While that report is being found, Mr. Bell, perhaps the Committee would be interested in the position of the Government, and the reason for it. The tentative proposal was the investment of money by the Canadian National in a privately owned enterprise, the amount being \$250,000. The view of the Government was that this might be considered a major item, and as it had not been included in the last budget, and had not been passed upon by Parliament, authority could not properly be given by the Government. It was not of a sufficiently emergent character to justify the Government giving authority, without the consent of Parliament in the manner in which we are now dealing with the estimates of the Canadian National.

Mr. BELL (St. Antoine): The only thing that I am personally interested in is whether there is really room for two big hotels in Halifax.

Sir HENRY THORNTON: That is a matter of opinion, Mr. Bell. We are not interested ourselves in whether the hotels will pay or not; we are interested in whether or not our own hotel will pay. We are not the custodians of the financial affairs of others who may embark upon a competitive enterprise. We believe, having regard to all the circumstances, that the hotel which we propose to build will pay. Opinions differ as to whether the two will pay or not.

Mr. McLEAN (Melfort): What percentage of the passenger traffic into Halifax, overland, is carried by your road?

Mr. WELDON: I think about 90 per cent.

Mr. McLEAN (Melfort): And a large percentage of the traffic by water from overseas is landed near your proposed site?

Sir HENRY THORNTON: Within a relatively few steps. I suppose the average passenger could walk from the Ocean Terminals to the new hotel in five minutes.

Mr. McLEAN (Melfort): And in coming away from Halifax they will have to leave by your station?

Sir HENRY THORNTON: I was speaking of the Ocean terminals. In so far as the land transportation is concerned, it is merely two minutes from the hotel to the station, the two being in the one building.

Mr. McLEAN (Melfort): And the bulk of the overseas passengers leaving Halifax have to leave through your station?

Sir HENRY THORNTON: If they want to get out of town, that is the best way to go.

Mr. POWER: Were the Canadian National Railways at any time, in any way, ever committed to participation in this joint hotel enterprise?

Sir HENRY THORNTON: No.

Mr. BELL (St. Antoine):— Could we have that statement read?

Mr. HENRY: This is on page 7 of the Annual Report of the Canadian Pacific Railway for the year ended December 31, 1927. (Reads):

Your Directors, after discussion with the National Railways and upon the strong recommendation of the latter, agreed to subscribe for \$100,000 of the Preferred Stock in the Lord Nelson Hotel at Halifax, Nova Scotia, the National Railways undertaking to recommend the Government's approval of a subscription by that Company of \$350,000 of such stock. This arrangement was not given effect to owing to Government objection, and your Company was pressed to increase its subscription to \$250,000. Your Directors considered that, in view of your ownership of the Dominion Atlantic Railway serving the important tourist centres of the Evangeline country and connecting through the Eastern Steamship Company with the Port of Boston, the local project, which received general support in Halifax, should be assisted to the extent mentioned. The subscription was accompanied by an offer to the National Railways to transfer to that Company or the Government \$250,000 of the Preferred Stock at cost up to July 1st next—in other words, renewing the proposal of the National Company to this Company. The National Railways shortly afterwards announced the construction of an hotel by that Company. Your Directors deplore this duplication as entirely without justification and are continuing negotiations with the National System in the hope that a way may be found of avoiding it.

Mr. BELL (St. Antoine): Are there any other remarks that you have to make, outside of those you have already made, regarding that statement?

Sir HENRY THORNTON: The report reads "after discussion with the National Railways and upon the strong recommendation of the latter." There were verbal discussions between Mr. Beatty and myself with respect to this situation, but no definite decision was reached with respect to the position of the Canadian National Railways. I can only recall, in that connection, Mr. Beatty asking me the question whether I thought a new hotel was needed at Halifax, and whether I thought it would pay. My recollection is that I said it was needed, and I thought it would pay, but that was merely an opinion with respect to the general hotel situation in Halifax.

Sir EUGENE Fiset: But the fact remains that the C.P.R. asked you to subscribe for \$250,000 worth of the preferred stock?

Mr. POWER: The Canadian National asked the C.P.R. according to that statement?

Sir EUGENE Fiset: The C.P.R. had an interest of \$300,000 in that hotel, and they would have had a controlling interest?

Sir HENRY THORNTON: We did not ask the Canadian Pacific Railway to participate in the hotel, curious as it may seem. No doubt there is a misapprehension, but, with much courtesy, I would say that we did not invite the Canadian Pacific Railway.

Mr. POWER: You did not initiate any negotiations leading to the construction of a hotel jointly by the two roads?

Sir HENRY THORNTON: No.

Mr. POWER: And in so far as that statement seems to insinuate that it is not correct?

Sir HENRY THORNTON: It is inaccurate.

Mr. BELL (St. Antoine): The C.P.R. Directors seem to be under the impression that two hotels will not pay, whereas the view of the management of the Canadian National is that your hotel will pay?

Sir HENRY THORNTON: I can only say that if the Directors of the Canadian Pacific Railway feel that two hotels will not pay, they would have better kept out of the field. However, that is a matter which rests entirely with their own judgment, and I would not presume to express an opinion.

Mr. POWER: You did express an opinion in the report; you said you had acted with wisdom.

Sir HENRY THORNTON: That is with respect to our position. Sometimes essential facts are overlooked, and I thought that further emphasis would do no harm.

Mr. HENRY: The \$3,000,000 is made up as follows: \$2,000,000 for the Chateau Laurier; \$100,000 for the Vancouver Hotel; \$176,000 for the Jasper Lodge; \$49,000 for Minaki Lodge; and \$44,150 for Pictou Lodge.

Mr. McLEAN (Melfort): Is that a new hotel that is being built?

Sir HENRY THORNTON: That is a proposition which we acquired, as I recall it, about two or three years ago. It is on the seashore, not far from Pictou. We took this Lodge over and it has been found to be quite satisfactory from the financial standpoint. We are enlarging the facilities, and improving it.

Mr. McLEAN (Melfort): That is at Pictou, Nova Scotia?

Sir HENRY THORNTON: Yes. There is insufficient sleeping accommodation in the Lodge, and we are adding room, the business having justified it.

Mr. POWER: Have you ever considered constructing a hotel in Quebec?

Sir HENRY THORNTON: Overtures have been made to us with respect to participation in another hotel at Quebec. Those overtures never reached a very tangible proposition, but, broadly speaking, my feeling has been that, with the possible exception of certain seasons of the year, the present Chateau Frontenac is adequately fulfilling the needs of the travelling public at Quebec. Until we have met the more pressing hotel situations elsewhere, such as at Ottawa, we thought that it would be unwise to embark upon anything there.

Mr. POWER: The negotiations you spoke of were with respect to a hotel to be constructed on what is called Montcalm Market, opposite the Auditorium?

Sir HENRY THORNTON: That is right.

Mr. POWER: As a matter of fact, you own property only a few yards from the Chateau Frontenac, which would be an ideal site for the construction of a hotel?

Sir HENRY THORNTON: I cannot answer that off hand. I would accept your statement if you say we do.

Mr. POWER: A number of years ago I think the Grand Trunk purchased some property above the Terrace in line with the Chateau Frontenac, supposedly for the purpose of constructing a hotel. General Fiset tells me that that might have been a personal purchase made by Mr. Hayes.

Sir HENRY THORNTON: The only property we own in the immediate vicinity is the Ticket Office opposite the Frontenac, and that would be insufficient, of course, for a hotel.

Mr. POWER: In the shuffle between the Grand Trunk and the Canadian National Railway, this property may have gone back to the Hayes Estate.

Sir HENRY THORNTON: At the moment, the only property we own in that vicinity is the Ticket Office. The Vancouver Hotel situation is this. Many years ago, when the Canadian Northern built into Vancouver, that railway entered into a contract with the city of Vancouver, which required a number of things. I do not know of anything that was left out of that contract, as far as obligations of the Canadian Northern were concerned. We were confronted

with the execution or fulfilment of our contractual obligations as a result of that contract. Many of the obligations were frankly admitted by the city to be uncalled for and unnecessary. Finally, however, an arrangement was reached with the city as a result of which if we would undertake to build within a relatively short time, a suitable hotel at Vancouver, the other contractual obligations would be waived by the city. We thought it an advantageous arrangement to make, first because we felt the need of a hotel for the Canadian National Railways at Vancouver. And secondly, because by doing so we relieved ourselves of presumably large expenditures which we thought unnecessary. That briefly represents the Vancouver position.

Mr. POWER: I am not referring to hotels now but I have in mind certain contractual obligations on the part of the National Transcontinental Railway—now your railway—towards Quebec, to build terminals and railway stations and all that, which they have not paid much attention to or given much consideration to for the last fifteen years.

Sir HENRY THORNTON: As far as that is concerned, Major, the Canadian National Railways must—and the company wishes to—comply with all of its contractual obligations. The situation with respect to Quebec is both long and complicated.

Mr. POWER: So complicated that we cannot move.

Sir HENRY THORNTON: If this Committee would like to go into it, I am quite willing to do so, and I can assure you I am glad the opportunity is presented to make this statement that however little the people of Quebec think is being done, we are dissatisfied with the terminal situation in Quebec, we are examining with a view to remedying it and we propose to do so just as quickly as we possibly can. It requires no urging on us to improve our terminal situation in Quebec which we do not regard at present as satisfactory.

Mr. POWER: Perhaps this is not the time to discuss it but I have a few questions to ask, with the permission of the Chairman.

The CHAIRMAN: Yes.

Mr. POWER: You have a contract at the present time with the Canadian Pacific Railway for the use of the Canadian Pacific Station.

Sir HENRY THORNTON: Yes.

Mr. POWER: Would it be possible to tell me when that expires?

Sir HENRY THORNTON: I will ask Mr. Hungerford, who is more familiar with the details of that than I am, and can give you the dates and particulars which perhaps I cannot, to answer that question. Will you please, Mr. Hungerford?

Mr. HUNGERFORD: In 1915, I think, an agreement was made between the National Transcontinental and the Canadian Pacific Railway, by which the National Transcontinental secured a fifty per cent interest in what is known as the Palais Station terminal, and that agreement provided for the use of those facilities by all railways that were owned or controlled by the Government, or in the future might be owned or controlled by the Government. So for all practical purposes the Canadian National owns a fifty per cent interest. We pay fifty per cent of the interest and have equal rights.

Mr. POWER: You pay fifty per cent of the maintenance, the C.P.R. own the building, and they let you in on condition that you pay to maintain it.

Mr. HUNGERFORD: We pay fifty per cent of the interest on the investment, and we pay a wheelage proportion of the upkeep. That is in proportion to the number of cars.

Mr. POWER: So it is really a lease or rental?

Mr. HUNGERFORD: It is equivalent to half ownership.

Mr. POWER: Equivalent to half ownership because you pay half the interest?

Mr. HUNGERFORD: Yes.

Mr. POWER: That is a new way of acquiring property, to my mind. And you pay on a wheelage basis for all the cars which enter the station.

Mr. HUNGERFORD: Exactly on the same basis as the C.P.R. are charged too.

Mr. POWER: When does this agreement expire?

Mr. HUNGERFORD: The agreement was drawn for 99 years. That was subject to legislative approval.

Mr. POWER: Has it ever been approved?

Mr. HUNGERFORD: I think not.

Mr. POWER: Are you bound to continue to use these railway terminals for 99 years?

Mr. HUNGERFORD: I think we would have to ask the lawyers that question. I do not know.

Hon. Mr. DUNNING: You are a lawyer yourself, Major Power.

Mr. POWER: I have never heard of an agreement like that in my life.

Sir HENRY THORNTON: It is a common agreement in railway practice.

Mr. POWER: I have never heard of acquiring property in that fashion. You could pay for 99 years and the property would still be that of the C.P.R.

Mr. HUNGERFORD: Quite true.

Sir HENRY THORNTON: I think technically Mr. Power is right, in that we acquire certain rights for the use of that station under certain terms. Those terms are the payment of fifty per cent of the capital charges; the division of maintenance on the basis of use. That agreement continues for 99 years and we think has not yet received legislative approval but we are not certain.

Hon. Mr. DUNNING: It has not received legislative approval.

Sir HENRY THORNTON: Technically speaking we enjoy the use of that station under this arrangement with the C.P.R. At the expiration of the 99 years the property would not be ours.

Mr. HUNGERFORD: There is an important phase of the matter which has not been mentioned, and that is that a considerable proportion of the real estate involved in the joint terminals belongs to the Canadian National Railways, and under the terms of the general agreement that is leased to the Canadian Pacific. So a considerable amount of the land actually belongs to the Canadian National Railways.

Mr. POWER: That is the land surrounding it, but not the land on which the station is built or on which the tracks are laid.

Mr. HUNGERFORD: Yes, there is a lot of property included in the joint area, and leased by the Canadian National Railways or its predecessors to the Canadian Pacific under the general provisions of the agreement.

Mr. POWER: Is it the intention of the National Railways to submit this agreement for legislative approval at any time?

Mr. HUNGERFORD: I do not know that.

Sir HENRY THORNTON: That is a new question. I do not know. It seems to have proceeded very satisfactorily without formal baptism. Whether the child should be presented for baptism or not I would not like to say.

Mr. POWER: Is that an insinuation that the child is more or less illegitimate?

Sir HENRY THORNTON: Well at least it has no parents.

Hon. Mr. DUNNING: It was an arrangement made by Mr. Gutelius I think. It never was submitted for approval.

Sir EUGENE Fiset: Usually these 99 year leases are confirmed by Order in Council.

Hon. Mr. DUNNING: I do not think there was any confirmation of it at all. As I have said, it was made by Mr. Gutelius.

Sir EUGENE Fiset: It does not need special legislation. It needs simply an Order in Council.

Hon. Mr. DUNNING: I think possibly that is so, but it has not been submitted for approval, at least I have no knowledge of it. It seems to work well without it.

Sir HENRY THORNTON: In putting together these properties a good many queer things were done years ago, and little by little we come across things that ought to have been done differently and which may require legislative approval, and as fast as we get hold of them we try to straighten them out. In the older days, there was a good deal of laxity, and by that I do not mean criticism that the former owners of the various properties were not as precise in their various transactions as we find it necessary to be to-day.

Mr. POWER: You know, Sir Henry, that at the time this contract was entered into by the National Railways with the Canadian Pacific Railway, there was existing a contract with the city of Quebec, whereby the Canadian National was pledged to build a large station on another site altogether, and had actually received from the city of Quebec property worth anything from two to five million dollars which it still keeps.

MAJOR BELL (Deputy Minister of Railways): That was an agreement between the Transcontinental Commissioners and the city of Quebec; not the present management.

Mr. POWER: In the same way probably in 1915 it was not the present management.

MAJOR BELL: It was with the Transcontinental Commissioners and the city of Quebec. It was not at that time under Government management. That is, the Transcontinental was not. Mr. Gutelius for instance was the man in charge.

Mr. POWER: The property involved though came into the possession of the Canadian National Railways.

MAJOR BELL: Oh, yes.

Mr. POWER: You got the property whatever else was done.

MAJOR BELL: When it was transferred from the Transcontinental Commissioners to the management of the Intercolonial Railway then that agreement was entered into by Mr. Gutelius, with the Canadian Pacific Railway. Mr. Gutelius at that time representing the Government Railways.

Sir EUGENE Fiset: The title is now vested in the Canadian National Railways.

MAJOR BELL: No, it is vested in the Government.

Hon. Mr. DUNNING: The Government has the lands.

Mr. HUNGERFORD: My understanding is that the present agreement is enforceable for a period of 21 years, and subject to legislative approval would continue for 99 years.

Sir EUGENE Fiset: It is exactly the same as the ordinary leases passed by the department in Ottawa. An Order in Council for the 99 year lease does; and notwithstanding the fact that the agreement was for 99 years, as it has not been confirmed by Order in Council, 21 years is the legal period that applies.

Mr. POWER: So we have to wait willy nilly whether the traffic increases or not for another 20 years or another 7 or 8 years before we get better terminal facilities in Quebec?

Sir HENRY THORNTON: I would say that would be an unduly pessimistic view, Major.

Mr. POWER: I think I am justified in pessimism when I reflect on the past history of this transaction.

Sir HENRY THORNTON: It is a complicated thing and we have been trying to get at the legal aspect of it. And every time I get a legal opinion I know less about it than I did before, and probably others have had the same experience.

Mr. POWER: That is perhaps a suggestion that you might get a better legal staff.

Sir HENRY THORNTON: Well I can think of one member of the Bar who would be a valuable member of our staff.

Mr. POWER: That offer might be considered.

Sir HENRY THORNTON: Now we are really getting on. Then I might suggest perhaps that it might be allowed to stand meantime and that Mr. Power settle this privately.

Mr. POWER: The latter part of our discussion might be settled privately.

A short time ago, Sir Henry, you said you were not satisfied or that you were dissatisfied with the terminal facilities at Quebec?

Sir HENRY THORNTON: Yes.

Mr. POWER: Did you refer to this agreement?

Sir HENRY THORNTON: I am speaking generally and that is part of the situation.

Mr. POWER: Could you tell me, for my information, what else is unsatisfactory?

Sir HENRY THORNTON: In Quebec?

Mr. POWER: Yes.

Sir HENRY THORNTON: No, I do not know that I can. I do not quite know where you are headed.

Mr. POWER: If I knew what was unsatisfactory, I might urge on the Canadian National Railways to remedy the situation.

Sir EUGENE Fiset: They may be dissatisfied with the representation here.

Mr. POWER: They might, but he does not vote.

Sir HENRY THORNTON: What is that? No, if I voted, I would probably be one of your most ardent supporters.

Mr. POWER: I do not think that is a fair question to ask, Sir Henry; it involves a lot.

Sir HENRY THORNTON: It involves a terrible lot.

Mr. POWER: I will drop it

Hon. Mr. DUNNING: There are many such situations from one end of Canada to the other, and old ones come to life again every once in a while, that we did not know about before.

Mr. POWER: But you are really giving it your attention?

Sir HENRY THORNTON: Oh yes, I assure you of that.

Mr. McLEAN (Melfort): Just what is the need for a hotel in Vancouver at the present time, Sir Henry?

Sir HENRY THORNTON: With much courtesy and with no desire to cast any reflection upon anyone, the only hotel in Vancouver to-day of large size, which is adequate to cope with the traffic needs of the community, is the Vancouver Hotel, which is owned by the Canadian Pacific Railway Company.

Mr. McLEAN (Melfort): Would not the "Georgia" come into that class?

Sir HENRY THORNTON: The "Georgia" was built rather recently. It is relatively small and hardly affects the competitive situation. We have felt for some time that we were losing traffic because the only really large hotel, as I describe it, a hotel, adequate to care for the travelling needs of the public, was the hotel that was owned by our principal competitor, and quite naturally they use that facility to the utmost to secure and keep traffic, and with respect to that I have no criticism whatever; but the passenger business in and out of Vancouver, particularly in the summer, is increasing with rapidity and we felt that quite apart from any other considerations the Canadian National Railways should have a first class hotel of its own in the city of Vancouver.

Mr. McLEAN: Have you any reason to suppose that the C.P.R. hotel is a profitable institution?

Sir HENRY THORNTON: I have no information with respect to what that hotel does. It enjoys a large business, it is in an important city, and certainly would seem to me to present a fertile hotel field.

Mr. McLEAN: If that hotel is not profitable at the high rates they charge and secure, there would not be very much show for a new hotel paying its way.

Sir HENRY THORNTON: I do not know whether the hotel is profitable or not. I can express no opinion.

Mr. McLEAN: But I say if it is not profitable, in view of the high rates they are getting and the fact that it is alone, you would not have much chance of making a hotel pay?

Sir HENRY THORNTON: You cannot consider the hotel proposition in Vancouver separate and apart from the traffic situation. A hotel is very often not only for the purpose of providing accommodation to travellers, but it is also an important implement in securing and retaining traffic.

Mr. McLEAN (Melfort): Why so. Have you connections with important passenger carrying ocean transportation systems in that city?

Sir HENRY THORNTON: We enjoy friendly relations with most of the trans-oceanic lines running into Vancouver. We have no alliances or things of that sort, outside of the coastwise service.

Mr. McLEAN: Is it the fact that the C.P.R. lines carry most of the passengers on the Pacific?

Sir HENRY THORNTON: Yes.

Mr. McLEAN: Could you depend on getting passengers from even the small balance of ships that run with passengers?

Sir HENRY THORNTON: I think we would have an equal chance at least.

Mr. McLEAN: It is not a very bright looking prospect, is it?

Sir HENRY THORNTON: Yes, I think it is certainly a satisfactory prospect. The situation is simply this: that if we wish to retain our passenger prestige on the Pacific Coast, we have got to be equal to hotel facilities in Vancouver. The city is growing with great rapidity. I do not know of any city in Canada that is growing more rapidly than Vancouver. Now we have got to protect our position. Furthermore, unless we do this, we are certainly liable to a very much larger expense which would ensue from the enforcement of the contract which the projectors of the Canadian Northern made with the city of Vancouver.

Hon. Mr. DUNNING: That is the point.

Sir HENRY THORNTON: Make up your minds to this, that there are several million dollars that we are stung for good and proper in Vancouver.

Mr. McLEAN: That company went into liquidation did it not?

Sir HENRY THORNTON: No.

Mr. McLEAN: It went bankrupt then.

Sir HENRY THORNTON: No, not as I understand it.

Mr. McLEAN: How did it have to be taken over then?

Hon. Mr. DUNNING: The government of that day acquired the stock, and acquired with the stock all the contractual obligations.

Sir HENRY THORNTON: Competent legal advice is that that is a valid contract, and I can assure you that there was nothing left out of that contract, not even the kitchen stove.

Mr. McLEAN: Well you may have to go on with it. But I think you will have an awful time making it up, for a long time to come.

Sir HENRY THORNTON: No, I do not think I agree with you with respect to whether or not such a hotel in Vancouver would pay. I think it will.

Hon. Mr. DUNNING: Yes, I think it will.

Sir HENRY THORNTON: I think it will pay.

Mr. McLEAN: What do you figure on it costing?

Sir HENRY THORNTON: The tentative estimate was about four million dollars, but let me again remind you, that in such a place as Vancouver and under such circumstances, you cannot entirely divorce the hotel from the traffic aspect.

Mr. McLEAN: That is so; it affects your traffic coming out of Vancouver; it does not affect your traffic going into Vancouver.

Sir HENRY THORNTON: Oh yes, because we have in the summer time a large coastwise traffic through our steamships that ply between Vancouver, Prince Rupert and Alaska.

Hon. Mr. DUNNING: The "triangle trip" affects that increasingly.

Mr. McLEAN: Quite so, but are not those people going to take your ships according to the quality of your service on the water?

Sir HENRY THORNTON: No. Of course quality of service is a factor but the Canadian Pacific Railway also operates a competing service almost parallel with ours, and somewhat more extensive.

Mr. McLEAN: How are the rest of your hotels paying at the present time? Outside of the Chateau, have you many hotels that are paying financially?

Sir HENRY THORNTON: I will get the statement.

Mr. McLEAN: Is the Fort Garry for instance paying?

Sir HENRY THORNTON: I will give you the figures. The hotel position in 1926 was this: there was an operating loss of \$38,737 on all the hotels. In 1927 the operating loss was \$10,502. My recollection is that if you go back three or four years you will find that the operating loss was very much more; so that I think it is fair to say that as the economic position of the Dominion improves, and as our traffic increases, the hotel losses become less each year, and I should look forward to no very distant day when our hotels as a whole will at least show some profit. These figures of course do not take into consideration the traffic value which our hotels bring to us.

Mr. McLEAN: What was the operating profit of the Chateau last year?

Sir HENRY THORNTON: I do not think we should give that here. I will tell you privately.

Mr. McLEAN: No, that is all right, Sir Henry, but the fact that you had a reasonable operating profit on the Chateau presents a different picture for the balance of your hotels.

Sir HENRY THORNTON: Practically all of the other hotels show losses running from a couple of thousand dollars up to thirty or forty thousand dollars.

Mr. McLEAN: Yes, I appreciate that.

Mr. CANTLEY: At Vancouver, Sir Henry, do you anticipate a large patronage from tourists motoring up from the States along the Coast?

Sir HENRY THORNTON: Yes, we do. Automobile traffic into Vancouver is a very valuable asset to that Province. In fact it is a very valuable asset to the whole of Canada. I should say that automobile tourists leave at least one hundred million behind them in Canada annually.

Mr. JELLIFF: I have understood that the hotels there are booked up for weeks ahead at times. Can you say whether that is so?

Sir HENRY THORNTON: I think that is true.

The CHAIRMAN: Are there any other questions on the Vancouver hotel proposition or with regard to any of the other hotels? If not, Mr. Henry will proceed.

Mr. HENRY: The total of these items is \$22,527,163. The next item is "Betterments to Equipment, \$1,958,000." That includes locomotives and freight cars.

Hon. Mr. DUNNING: You are still giving details of the 25 million item?

Mr. HENRY: Yes, of the 25 million item: Additions and Betterments to Equipments, \$1,958,000; Electric Lines in Ontario, \$348,100.

Those represent all the items that ordinarily come under the Operating Department. They total \$24,833,263.

The next item is Canadian National Express, \$63,000.

Colonization Department, \$37,750.

These are Capital Expenses of course.

Radio Department, \$15,000.

Stores Department, \$195,476.

Traffic Department, \$38,800.

Finance and Accounting Department, \$6,000.

Legal and Taxes, \$144,800.

Fire Protection, \$165,500.

Canadian National Commercial Telegraphs, \$2,472,601.

Sir HENRY THORNTON: The bulk of that is a provision for the purchase of the lines now owned by the Western Union Telegraph Company in the Maritime Provinces.

Mr. CANTLEY: When do you expect to take those over?

Sir HENRY THORNTON: We are in negotiation now with the Western Union, and we have a final meeting with them the day after to-morrow and it will probably be before very long.

Mr. HENRY: Railway Telegraphs, \$81,599. No, Railway Telegraphs, that is \$121,503.

Great Northwestern Telegraph Company Commercial, \$451,596.

Montreal and Southern Counties, \$53,000.

Oshawa Railway, \$276,700.

Thousand Islands, \$5,300.

Canadian National Steamships, \$10,800.

Mr. STEWART (Leeds): Mr. Henry, that item for the Thousand Islands Railway, is that a new station? We are much interested in that.

Mr. HENRY: It is a small item. \$5,300.

Hon. Mr. DUNNING: I am afraid you will not get a station for that.

Mr. STEWART: It is not a big station or a big railway.

Mr. HENRY: It is for small betterments, that is all.

Sir HENRY THORNTON: I know what you have got in your mind. I think you are right too.

Mr. HENRY: Terminal Warehouse Company, \$7,150.

Total for these other departments, \$4,149,975, for a grand total of \$28,983,238. From that there a deduction in the final estimates of \$3,297,000. For Betterment of Equipment, giving a net of \$25,685,385. That net appears on the summary we have just given.

Sir HENRY THORNTON: That does not include the branch line program.

Mr. HENRY: The division of the estimates between the Eastern lines and the balance of the system is as follows:—

Eastern Lines \$5,144,178.

Balance of the system \$23,539,060.

The CHAIRMAN: Has any member any question to ask in regard to any of those items?

Mr. HARRIS: I intended to ask about the Toronto Terminal Warehouse.

Sir HENRY THORNTON: It was Montreal. Do you want to know what that is?

Mr. HENRY: That is \$7,000. It is a small capital item with regard to a warehousing company that formerly belonged to the Grand Trunk Railway of Canada and came over with the assets of that company.

Sir HENRY THORNTON: I think Mr. Harris knows what it is?

Mr. HARRIS: Yes.

Sir HENRY THORNTON: There are the Marine estimates.

Hon. Mr. DUNNING: It is on the same sheet, \$759,000.

Sir HENRY THORNTON: The deficit in operation of the company and the vessels under the company's control during the year ending December 31st, 1928, \$750,000. Capital requirements \$8,000. That is practically all deficit. I take it there is no question about that. That has all been previously explained.

The CHAIRMAN: Have you any further questions to ask in regard to these estimates?

Sir EUGENE Fiset: Would it be possible next year to have a detailed statement of these figures?

Sir HENRY THORNTON: I noted what you said, General, and we will endeavour to see if that cannot be presented in somewhat the form you suggest, and we are very much obliged to you for the thought.

Hon. Mr. DUNNING: Here it is General. It is very bulky.

Sir EUGENE Fiset: I would not give all those details. A summary of the different items that the members of the Committee could hold.

Sir HENRY THORNTON: I see what the General wants. Although what we did this year has been what we have been doing for the last five years, I think we can do it better next year.

Mr. HARRIS: Following up that suggestion, Mr. Chairman, I make this observation; as a member of the Committee I must frankly admit that I could not follow these figures.

Hon. Mr. DUNNING: It will all be printed to-morrow morning.

The CHAIRMAN: Yes, you will have all these items to-morrow morning, Mr. Harris, in the report.

Sir HENRY THORNTON: I realize how hard it must be for members of the Committee who perhaps may not be day by day as familiar with the operations of the railway as the officers themselves, to follow figures of this sort. It is our desire to try to present the figures in such a way as to give the Committee all of the information they require but not so much information as to be confusing.

Sir EUGENE Fiset: I do not mean, Sir Henry that these details or that summary of the details composing that, should not be included in the estimates themselves. I think a separate sheet might be submitted to the Committee which would be all that would be needed.

Hon. Mr. DUNNING: I have a suggestion to make there; I quite see Mr. Harris' point. I think probably, Sir Henry in view of the practice of former years, if we could agree as a Committee for the Chairman to draft a report for submission to us as a Committee, before it goes to the House, and meet at some future time, by that time all of the details which have been given this morning will be of record, and be in the printed proceedings of the Committee. Members in the meantime could go over that, and we could have the understanding that when we meet to consider the report to be made to the House, anything which arises out of the printed information, Mr. Harris, could then be submitted. I think that would be the best way to get at it this year, and then possibly in future years we might have a summary for distribution.

Sir HENRY THORNTON: I think we can do better. We are always learning.

Sir EUGENE Fiset: For this year we have the explanation and we are satisfied with it.

Hon. Mr. DUNNING: You can follow it much better when you get it in the printed record.

Sir EUGENE Fiset: I would not like to delay the passing of the estimates or the acceptance of the report.

Sir HENRY THORNTON: Colonel Cantley asked a question in regard to wooden cars. We have a statement in answer. May we file that, colonel, if that meets your wishes?

CANADIAN NATIONAL RAILWAYS

WOODEN CARS IN SERVICE AT DECEMBER 31, 1927

Age in Years	Box	Auto	Flat	Stock, Horse, Poultry	Refrigerator	Coal, Coke, Ore	Ballast	Pulp- wood	Potato	East- man Heater	Tank	Total
47			1									1
46				1								1
41			1		4							5
40			1									1
39			3	4								7
38			1	2				11				14
37			5	10		24						39
36			1			1						2
35		1	2			2						5
34	1											1
33	6		22			44						72
32			1									1
31	113		2					12				130
30	214			108	179	82		42				625
29	56		149		9	89		86				389
28	217		117		5	449		129			2	919
27	163		93	12	14	68		201			17	568
26	1,361	3	313	3	5	110	109	195			1	2,100
25	1,074	14	303	196	3	549	143	47	12	5	1	2,347
24	473		145	30	12	56		15	13	6	1	751
23	1,602		160			26		62	39	8	13	1,910
22	3,744	1	283	20	20	94	54	31	8		1	4,256
21	3,798	81	1,509	484	17	158	847	73	7	5		6,979
20	5,155		224	32	64	1	254	17	61	2		5,810
19	3,383		37	327	29	27		1				3,804
18	3,698		654	37	227	255	197	8				5,076
17	2,901		134	159	103	5	181	6	7			3,496
16	3,605		240		463	136	308	31	14	5		4,802
15	2,250		199	112	128	135	319	13	34			3,190
14	253			20				1				274
13			1				65					66
12	711		46	128		10	192					1,087
11	30		31		96	84	31			157		429
10	6		107	1,240	5	5	413	10				1,786
9			1	818	370		637	1				1,827
8				137			346					483
7			1	197								198
No record			29	2		2						33
Total	34,817	100	4,816	4,083	1,749	2,412	4,096	991	196	188	36	53,484
Cars equipped with M. D. A. included above	29,906	63	2,579	3,126	1,651	1,973	3,510	763	161	188	36	43,956

Mr. Chairman, this has no particular bearing on the work of the Committee, but it will perhaps be of interest to the Committee to hear this statement which has just come to me.

For the first three months of this year, the net earnings of the National Railway system are \$10,524,000 as compared with \$8,276,000 the previous year. An increase of \$2,248,000; or rather more than 25 per cent for the first three months of the year. As I say, that has no bearing on this year's figures, but I thought the Committee would like to know what was going on.

Mr. POWER: It will put them in a good humour.

Sir HENRY THORNTON: And you can go away feeling quite happy and contented.

The CHAIRMAN: Is it the wish of the Committee that we have a report prepared and submitted to a future meeting of the Committee?

Sir EUGENE Fiset: No, I think each member will have a copy of the printed evidence, and there is no need to delay.

The CHAIRMAN: Last year we had a general report prepared and submitted to the Committee, and that general report was confirmed by the Committee after it was submitted to the House. Is it your wish to do the same thing this year?

Mr. McLEAN (Melfort): Yes. I move that that be done, Mr. Chairman.

Mr. HARRIS: Make it very brief, Mr. Chairman. In other years we have had a very lumbering report.

Mr. CANTLEY: Would you indicate how much money you intend to spend on branch railways this year, Sir Henry.

Mr. HENRY: I will get the branch line estimates.

Mr. HARRIS: Before you put the question as to Mr. McLean's motion; at one of the early meetings I wanted to ask this question, but I did not want to embarrass the railways. Is it possible that we are going to lose the services of Mr. Henry to the railways?

Sir HENRY THORNTON: The disaster is not imminent. Answering Colonel Cantley, the amount estimated to be expended during the year 1928 is \$10,725,000.

Mr. CANTLEY: Is it all in the west or on the western lines?

Sir HENRY THORNTON: I cannot give you the details of the money but I can tell you that it is divided between Quebec, Ontario, Saskatchewan and Alberta.

Mr. CANTLEY: What about the Sunny Brae Road?

Sir HENRY THORNTON: We do not contemplate that this year. The only program we have, colonel, is the three-year program.

Mr. CANTLEY: I understand that.

Sir HENRY THORNTON: And the figures I have given relate to that program.

Mr. CANTLEY: I was in hopes that it would include that road this year.

Sir HENRY THORNTON: We did not see that we could.

The CHAIRMAN: Gentlemen, you have heard Mr. McLean's motion as to the report. Anyone opposed?

(Carried.)

You have heard the estimates given in detail. We would like to have a motion approving of the estimates of the Canadian National Railways and of the Canadian Government Merchant Marine.

Sir EUGENE Fiset: I move that the Canadian National Railways and the Merchant Marine estimates be approved now.

The CHAIRMAN: All in favour of the motion?

(Carried.)

Sir HENRY THORNTON: Might I ask, Mr. Chairman, when you next meet—we are glad to come and be at your disposal but if you can give us an idea of the date the officers and myself may arrange our time accordingly.

Hon. Mr. DUNNING: The motion as to the draft report having been carried, I move that we meet again at the call of the Chair, when he is ready with his report.

Mr. HARRIS: Why not next Tuesday, Mr. Chairman?

Hon. Mr. DUNNING: If we can say definitely next Tuesday, there might be some questions arising out of the printed report of the proceedings; if the Committee thinks it can get along without the officers, so much the better, but I hesitate to say that to Sir Henry.

Sir HENRY THORNTON: Safety first. We will be here.

Sir EUGENE FISET: We have heard all the explanations and the book will be full of them; I do not think there is any need of the officers being here.

Hon. Mr. DUNNING: I am obliged for your hint, but one of the reasons for having this Special Committee is to relieve the House and to relieve the Minister from making explanations which can be better made by the officers in Special Committee. I do not know that we can presume that any different practice will be followed in the House than has been in the past. Of course any member can ask any questions when the estimates are before the House. These are in no different position from any other estimates, but the fact that we have conducted an examination here, and the proceedings being printed, has in the past tended to minimize the discussion in the House. I think it is very desirable that this should be so. Every member of the House is provided with a copy of the proceedings and in nine cases out of ten it answers his questions. In the tenth case I will have to do the best I can.

Mr. STEWART (Leeds): Would it not be a good suggestion if we had this report drafted and before the Committee and then if we need the officers we can send for them?

Sir HENRY THORNTON: I think you had better make it Tuesday and have everyone here, and I think that we will really save more time, in that way, than in any other.

Mr. HARRIS: I suggest that Sir Henry use his judgment as to who he will bring here.

Sir HENRY THORNTON: We will have enough artillery.

Mr. Chairman, will you permit me on behalf of the officers and myself, to thank the members of the Committee for the sympathetic consideration which they have given the report and the facts that we have presented to them; and also to thank them for the many helpful suggestions that they have given to us. I can assure you that it has come to be a pleasure to appear before this Committee to discuss annually the affairs of the railway.

The CHAIRMAN: We will adjourn until Tuesday at 11 o'clock in this room.

The Committee adjourned.

SESSION 1928
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

(Orders of Reference, and Reports, in full.)

No. 7—THURSDAY, MAY 3, 1928

WITNESS:

Sir Henry Thornton, President
Assisted by Officers, Canadian National Railways.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

MEMBERS OF THE COMMITTEE

(as named by House March 6)

W. T. GOODISON, ESQ.,
Chairman

MESSIEURS

Bell, L. G. (St. Antoine),
Cantley, T.,
Chaplin, Hon. J. D.,
Drayton, Hon. Sir H.,
Duff, W.,
Dunning, Hon. C. A.,
Fiset, Sir E.,

Harris, J. H.,
Jelliff, L. H.,
Jenkins, R. H.,
McLean, M. (Melfort),
Milne, R.,
Power, C. G.,
Stevens, Hon. H. H.

E. L. MORRIS,
Clerk of the Committee.

MEMBERS OF THE COMMITTEE

(change in personnel as from April 19)

W. T. GOODISON, ESQ.,
Chairman

MESSIEURS:

Bell, (L. G. (St. Antoine),
Cantley, T.,
Chaplin, Hon. J. D.,
Duff, W.,
Dunning, Hon. C. A.,
Fiset, Sir E.,
Harris, J. H.,

Jelliff, L. H.,
Jenkins, R. H.,
McLean, M. (Melfort),
Milne, R.,
Power, C. G.,
Stevens, Hon. H. H.,
Stewart, H. A. (Leeds).

E. L. MORRIS,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

TUESDAY, 6th March, 1928.

Resolved,—That Standing Order 63 of the House of Commons, relating to appointment of the Select Standing Committees of the House, be amended by adding to the Select Standing Committees of the House for the present session, a Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and for report to the House, provided, however, that nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bell (St. Antoine), Cantley, Chaplin, Drayton, Duff, Dunning, Fiset, Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

Ordered,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

WEDNESDAY, March 21, 1928.

Ordered,—That the preliminary statement of the Accounts of the Canadian National Railways for the year 1927, laid on the Table of the House on Tuesday, March 6, 1928, be referred to the Select Standing Committee on Railways and Shipping.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

THURSDAY, March 22, 1928.

Ordered,—That 500 copies of the minutes of proceedings and evidence taken before the said Committee be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

THURSDAY, March 22, 1928.

Ordered,—That the said Committee be given leave to sit while the House is in session.

Attest.

ARTHUR BEAUCHESNE,

Clerk of the House.

THURSDAY, March 22, 1928.

Ordered,—That the Supplementary Estimates, 1927-28 (Railways and Canadian Government Merchant Marine, Limited), be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 19, 1928.

Ordered,—That the name of Mr. Stewart (Leeds) be substituted for that of Sir Henry Drayton on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS OF THE COMMITTEE

FIRST REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their First Report. Your Committee recommend to the House that 500 copies of their minutes of proceedings and evidence be printed from day to day, or as required, for the use of members of the Committee and the House, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

W. T. GOODISON,
Chairman.

SECOND REPORT

THURSDAY, March 22, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Second Report. Your Committee recommend that they be given leave to sit while the House is in session.

All of which is respectfully submitted.

W. T. GOODISON,
Chairman.

THIRD REPORT

TUESDAY, April 17, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Third Report:—

Your Committee, to whom was referred Bill No. 204, An Act respecting The Toronto Teminals Railway Company, have taken the said Bill under consideration and have agreed to report the same without amendment.

All of which is respectfully submitted.

W. T. GOODISON,
Chairman.

FOURTH AND FINAL REPORT

MONDAY, May 7, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, beg leave to present the following as their Fourth and Final Report:

Your Committee, to whom was referred for consideration and for report to the House, the Estimates of the Canadian National Railways and the

Canadian Government Merchant Marine, Limited, held seven meetings, in the course of which they examined sundry witnesses, including:

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.

Major Graham A. Bell, C.M.G., Deputy Minister of Railways and Canals.
Gerard Ruel, K.C., Vice-President of Legal Affairs, C.N.R.

S. J. Hungerford, Vice-President, Operation and Construction Departments, C.N.R.

R. C. Vaughan, Vice-President, Purchases and Stores Departments, C. N. R.

A. T. Weldon, Vice-President, Traffic and Express Departments, C.N.R.

W. D. Robb, Vice-President, Insurance, Colonization and Telegraph Departments, C.N.R.

R. A. C. Henry, Director, Bureau of Economics, C.N.R.

T. H. Cooper, General Auditor, C.N.R.

C. B. Brown, Chief Engineer, Operation Department, C.N.R.

M. S. Blaiklock, Asst. Chief Engineer, Operation Department, C.N.R.

J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine, Limited.

CANADIAN NATIONAL RAILWAYS

Your Committee have had under consideration Item 408 of the Estimates, which provides for loans or guarantees of \$39,000,000 to the Canadian National Railway Company for the year ended December 31st, 1928, which is the first full calendar year for which the Estimates of the railway company have been placed upon the basis of the calendar year, instead of the Government fiscal year, which was previously the case. The Estimates considered by the Committee and presented to the House a year ago covered the nine months' period ended December 31st, 1927.

Your Committee have in the course of their deliberations examined in considerable detail the operating statements and the capital expenditures of the company for the year ended December 31st, 1927, and desire to point out that the statements presented this year are in a modified form in that the accounts of the Central Vermont Railway, now in receivership, have been excluded for the entire year, and the accounts of the Eastern Lines, under the provisions of the Maritime Freight Rates Act passed last session, have been shown separately from those of the balance of the Canadian National System, for the six months ended December 31st, 1927.

Your Committee note that the operating results for the year 1927 were not quite as favourable as those for the previous year. The evidence adduced from the officers of the railway disclosed the fact that the chief reasons for the less favourable showing were an increase in expenses due to a general increase in wages, and because of somewhat larger expenditures on maintenance of way and structures to improve the physical condition of the property; and a decrease in earnings due to a reduction in freight rates and to a later harvesting of the grain crop, which delayed the grain movement in 1927 as compared with the movement in 1926. When these factors are taken into account, your Committee is of the opinion that the results of the operations have been very satisfactory indeed.

Your Committee have examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and are satisfied from evidence given that the railway properties have received a benefit in keeping with the capital outlay made.

Your Committee are also satisfied from the evidence given that the accounts for the year 1927 as presented are in accordance with prescribed practices in railroad accounting, and when taken together with the separate statement

respecting the Eastern Lines, reflect accurately the revenues received and the expenditures made, as well as the additions to the capital account during the year 1927.

Your Committee are gratified to observe the continued improvement in the earnings of the company's hotels, and to learn from the officers of the company of the indirect benefit resulting from the operation of the hotel system.

Your Committee have already in their Third Report referred to their consideration of Bill 204, "an Act respecting the Toronto Terminals Railway Company."

Your Committee note that the requirements for the present year, exclusive of the Eastern Lines, amount to \$39,000,000, as compared with the requirements asked for last year of \$22,500,000 for the nine months ended December 31st, 1927, including the Eastern Lines. The chief reasons for the increase are the twelve months' period as compared with the nine months' period of last year, increased interest and a larger program of additions and betterments which was examined by your Committee and found to be reasonable.

From the evidence given your Committee are of the opinion that the amount of \$39,000,000 is necessary for the purposes of the company during the year 1928 and should be passed by the House.

CANADIAN GOVERNMENT MERCHANT MARINE, LIMITED

Your Committee have had under consideration Item 409 of the Estimates, which provides for a loan of \$758,000 to the Canadian Government Merchant Marine, Limited, and have, in the course of their deliberations, examined the operations for the year ended December 31st, 1927. Your Committee note that the results of the operations have not been quite as favourable as those for the previous year, due to a highly competitive situation, which resulted in a reduction of freight rates in certain directions, with a resultant reduction in the gross revenue of the company.

Your Committee note that the amount asked for, viz: \$758,000, is to be used to the extent of \$750,000 for contemplated deficits and \$8,000 for betterments, and are of the opinion that this amount is necessary and should be granted by the House.

All of which is respectfully submitted.

W. T. GOODISON,
Chairman.

MINUTES OF PROCEEDINGS

ROOM 429, HOUSE OF COMMONS,

THURSDAY, May 3, 1928.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, met at 11 o'clock a.m. on above date, Mr. Goodison, the Chairman, presiding. The following members of the Committee were present:—

Messieurs: Cantley, Duff, Dunning (Hon. C. A.), Fiset (Sir E.), Goodison, Harris, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens (Hon. H. H.), and Stewart (Leeds)—13.

Sir Henry Thornton, President, C.N.R., Major G. A. Bell, C.M.G., Deputy Minister of Railways and Canals, S. J. Hungerford, Vice-President O. and C. Departments, C.N.R., R. A. C. Henry, Director, Bureau of Economics, T. H. Cooper, General Auditor, and several other officers of the railways were present at the meeting.

The Chairman stated that, if any members of the Committee present desired to ask any further questions before proceeding to the consideration of the Fourth and Final Report, he would be glad to have them do so; if not, they would take up the matter of the report and deal with that.

The Report was then read by the Chairman, followed by considerable discussion respecting the method of accounting followed by the railway, referred to in the report as, "the recognized practice in railroad accounting," Sir Henry Thornton and the officers of the railway answering questions in detail, as requested, by members of the Committee.

The Central Vermont Railway, now in receivership, came up for further discussion; also, the Eastern Lines for a lengthy discussion. Mr. Stevens maintained that all accounts, with special reference to the Eastern Lines, should appear in the Annual Report (red book) of the C.N.R., under a certain specified heading, in addition to the present practice of presenting the accounts in separate volumes.

A long discussion followed on this point.

The Chairman announced that it was one o'clock and the report had not yet been fully dealt with, and he desired to know the wish of the Committee.

Mr. Harris moved, "That the Committee do now adjourn, and meet again at 4 o'clock p.m., to-day."

Motion lost on division.

After further consideration of the report, in which some minor amendments, as to certain wording and the construction of certain paragraphs, had been made, but without any material change in the statements contained in the report as a whole, Mr. Jenkins moved, seconded by Mr. Cantley:—

That the Fourth and Final Report, as amended, be adopted.

Motion carried.

The Chairman was thereupon instructed to present the said Report to the House.

The Committee adjourned to the call of the chair.

E. L. MORRIS,
Clerk of the Committee.

MINUTES OF EVIDENCE

COMMITTEE ROOM 429,

HOUSE OF COMMONS,

THURSDAY, May 3, 1928.

The Select Standing Committee on Railways and Shipping met at 11 o'clock A.M., the Chairman, Mr. W. T. Goodison, presiding.

The CHAIRMAN: Gentlemen, we have a quorum. At our last meeting there was some complaint made that the members of the Committee could not follow the figures as they were explained, and at that time it was stated that those full figures would be printed in the report. This was done. Are there any questions which any member wishes to ask if so, we will be glad to have them now before we start consideration of our final report. If not, we will take up the final report at this time.

Mr. POWER: General Fiset and Mr. Harris brought that up and I think they are absent to-day.

The CHAIRMAN: We have prepared the report, and a copy has been handed to each member of the Committee. If it is the wish of the Committee I will read the report now. This is the fourth and final report of the Select Standing Committee on Railways and Shipping:

FOURTH AND FINAL REPORT

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as its Fourth and Final Report.

Your Committee to which was referred for consideration and for report to the House the Estimates of the Canadian National Railways and the Canadian Government Merchant Marine, Limited, held seven meetings, in the course of which it examined sundry witnesses, including:

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.

Major Graham A. Bell, C.M.G., Deputy Minister of Railways and Canals.

Gerard Ruel, K.C., Vice-president of Legal Affairs, C.N.R.

S. J. Hungerford, Vice-president, Operation and Construction Departments, C.N.R.

R. C. Vaughan, Vice-president, Purchases and Stores Departments, C.N.R.

A. T. Weldon, Vice-president, Traffic and Express Departments, C.N.R.

W. D. Robb, Vice-president, Insurance, Colonization & Telegraph Departments, C.N.R.

R. A. C. Henry, Director, Bureau of Economics, C.N.R.

T. H. Cooper, General Auditor, C.N.R.

C. B. Brown, Chief Engineer, Operation Department, C.N.R.

M. S. Blaiklock, Asst. Chief Engineer, Operation Department, C.N.R.

J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine, Limited.

CANADIAN NATIONAL RAILWAYS

Your Committee has had under consideration item 408 of the Estimates, which provides for loans or guarantees of \$39,000,000 to the Canadian National Railway Company for the year ending December 31st, 1928, which is the first full calendar year for which the estimates of the railway company have been placed upon the basis of the calendar year, instead of the Government fiscal year, which was previously the case. The estimates considered by the Committee and presented to the House a year ago covered the nine months' period ending December 31st, 1927.

Your Committee has, in the course of its deliberations, examined in considerable detail the operating statements and the capital expenditures of the company for the year ending December 31st, 1927, and desires to point out that the statements presented this year are in a modified form in that the accounts of the Central Vermont Railway, now in receivership, have been excluded for the entire year, and the accounts of the Eastern Lines, under the Provisions of the Maritime Freight Rates Act passed last session, have been shown separately from those of the balance of the Canadian National System, for the six months ending December 31st, 1927.

Your Committee notes that the operating results for the year 1927 were not quite as favourable as those for the previous year. The evidence adduced from the officers of the railway disclosed the fact that the chief reasons for the less favourable showing were a reduction in freight rates and an increase in expense due to an increase in wages and because of somewhat larger expenditures in maintenance of way and structures to improve the physical condition of the property. When these factors are taken into account, your Committee is of the opinion that the results of the operations have been very satisfactory indeed.

Mr. JELLIFF: Mr. Chairman, right there: would it not be well to point out, unless it appears later in the report, that the lateness of the crop conditions in the west affected more unfavourably than this would show the railways for the year. Of course that will be reflected in this year's business, but is that not one factor in the less favourable showing?

Sir HENRY THORNTON: There is no doubt at all but what the late movement of the crop, a portion of which was not moved last year, has had that effect. It was mentioned in the annual report of the company. The statement was made:

The increase in freight rates was not in proportion to the increase in operating expenses, partly on account of the reduced freight rates and partly on account of the early harvest in 1926 and the late harvest in 1927.

Mr. JELLIFF: I would not care to interfere with the report as it is.

The CHAIRMAN: It is in the printed report.

Mr. DUFF: It is better there to be general than to be specific.

The CHAIRMAN (Reading):

Your Committee has examined in detail the capital expenditures made during the year which totalled a very considerable sum, and are satisfied that the railway properties have received a benefit in keeping with the capital outlay made.

Your Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting, and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the Capital account.

Mr. HARRIS: In reading the clause on the top of page 3—is it necessary to put that in? What does the Committee know about railway accounting?

The CHAIRMAN: From the evidence of those who are familiar with it.

Mr. HARRIS: We do not know anything about it.

Mr. McLEAN (Melfort): We think we do.

Mr. HARRIS: I am speaking for myself. Perhaps the rest know more about it.

The CHAIRMAN: We have to base our ideas upon the evidence of those who are familiar with it. That question was asked particularly and it was stated that this was in accordance with the recognized practice of railroading throughout the United States and Canada.

Mr. HARRIS: We did not put that statement in last year's report. Why should we put it in this?

Hon. Mr. DUNNING: In view of the fact that the record of the proceedings of the Committee will indicate that considerable evidence was adduced with respect to the accounting system. That was one of the matters which was discussed and inquired into possibly more extensively than any other phase of the company's business, and is there not an implication, that if we are not satisfied that recognized accounting methods are followed, we would say so, and it seems to me that the implication is that if we are satisfied we should say something of a positive character.

Mr. POWER: You can say that the evidence goes to show that the accounts as presented are in accordance with recognized practice. You need not say you are satisfied.

Hon. Mr. DUNNING: Some members of the Committee are satisfied.

Mr. McLEAN (Melfort): If we are not satisfied with the accounting we should order an outside investigation immediately into the matter.

The CHAIRMAN: If we are not satisfied with the manner of accounting we are in duty bound to present it in this report.

Mr. McLEAN (Melfort): We must either be satisfied or take some other method of finding out.

Mr. CANTLEY: Why not say "It would appear from the evidence given"?

Mr. HARRIS: We could say "It is a recognized practice in railroad accounting."

Mr. POWER: Your objection is that you are not satisfied from the evidence that the accounts as presented here are in accordance with recognized practice?

Mr. HARRIS: I am not in a position to pass judgment on the recognized practice of railroad accounting.

Sir HENRY THORNTON: In this and in similar investigations which are made by individuals who may not be experts in the technique of any particular thing, they call as witnesses individuals who are believed to have some complete knowledge of whatever is being dealt with and in whom they have confidence. They question them and then form their own conclusions based on the evidence of those experts. That is the situation which confronts this Committee. It has called certain witnesses in whom the Committee is believed to have confidence both with respect to their ability and honesty, and after having heard their evidence they then apply their own judgment and come to the conclusion that the situation is as stated in that paragraph. That is the common practice in all investigating bodies.

Mr. HARRIS: Why was this put in this year and not in other years?

Mr. POWER: Because we went further into the evidence with regard to the accounting system this year than we did in other years. We studied the question of accounting and I think whoever wrote that report was justified in saying that

we were satisfied with it, because we did not want any further evidence on it. We should not simply have a copper-plate report or a printed form to fill in; we should vary it from year to year. It shows we have some initiative, if nothing else.

Hon. Mr. DUNNING: One of the most important matters before this Committee is the manner in which the accounts are presented, because if they are not presented in accordance with the recognized system of accounting, our work from year to year would be made ten times more difficult. I frankly confess that it is to me, as Minister, a matter of some importance that recognized railway accounting principles should be followed. I regard that as a vital matter for this Committee, and if there is any doubt at all now after the inquiry which has been made, that there is or has been any departure from recognized railway accounting principles I think this question is important enough to keep the Committee here for a week to get to the bottom of it. To me it is a matter of supreme importance. We cannot appreciate what our property is doing unless we feel sure that the foundation for the structure of our accounting is sound, and if there is any doubt about it we should go fully into the matter, call further evidence and do everything possible to assure ourselves that the practice followed is sound because from that accounting we get the information upon which to base our judgment, and if that information is wrong, our whole work is wrong. I would like to encourage a thorough examination up to the point where the Committee says that it is satisfied with the system as it is, or that it is not satisfied and that certain changes should be made. As I see it, it is a matter of the most vital importance.

Mr. CANTLEY: I am almost in complete accord with what the Minister has said, but I would like to point out that most of the members of the Committee are not possessed of sufficient knowledge to make an authoritative statement as to whether the accounting system is correct or not.

Hon. Mr. DUNNING: That is not the point—

Mr. CANTLEY: That is part of the point. I was going to make the suggestion—I do not know whether it will meet with the approval of the Committee or of the Minister—that we turn back to the preceding page and continue that so as to read: “Your Committee has examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and they are satisfied that the railway properties have received a benefit in keeping with the capital outlay made,” and then follow on with the words “And from the evidence given it would appear that the accounts as presented are in accordance with the recognized practice of accounting and reflect accurately”—and so on. It is not as specific as the statement which is made, which members might use with a certain amount of hesitation.

Hon. Mr. DUNNING: I think we are in a measure talking of different matters, Colonel Cantley. I am dealing with the words “the recognized practice in railway accounting.” We do not require to be expert accountants ourselves in order to be able to determine from the evidence whether the practice followed is in accordance with recognized railway accounting or not. We can hear the witnesses as to what the standards of accounting are in the Interstate Commerce Commission, which we did; we took evidence on that point. We are capable from hearing the evidence given by the expert accountants of knowing whether the system is in accordance with recognized practice in railway accounting.

Mr. POWER: That is all we have here.

Mr. CANTLEY: No. This says: “Your Committee has examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and are satisfied that the railway properties have received a benefit in keeping with the capital outlay made”.

Mr. POWER: That is another phase of it.

Hon. Mr. DUNNING: With regard to the other phase I think Colonel Cantley is right. That is a matter for the auditors, and we have adopted the auditors' report. But with regard to the first, it is a matter of great importance in regard to the practice in railway accounting as to whether or not what we are following is recognized practice or not. With regard to the accounts themselves, we cannot determine that for ourselves; we can only rely on the internal audit, and the audit by the independent firm of chartered accountants.

Mr. CANTLEY: I am satisfied with the method of accounting, but turning back to page 2, the last line, you say "are satisfied that the railway properties have received a benefit in keeping with the capital outlay made". How can the Committee make that assertion? That can only be made by an examination of this property from one end of the country to the other, and I do not think we should permit ourselves to make a statement of that kind which is so very sweeping and so very broad.

Mr. McLEAN (Melfort): If the Committee is not satisfied that the Railway properties are benefited in accordance with the capital outlay, they must say one thing or the other, and they should go farther and investigate now.

Mr. CANTLEY: I was raising a point upon which there may be some difficulty.

Mr. McLEAN (Melfort): We are asking for a further sum of money to be spent in the same manner, and if I am not satisfied that the physical condition of the property is better, I could not feel justified in voting for further moneys to be spent in the same way. As a matter of fact, from the evidence given, and my own observations, I think the money voted in the past has been spent to good advantage, so I feel free to ask that more be given in the same manner.

Mr. POWER: The only way in which we can be expected to satisfy ourselves on that point is by the evidence given. Evidence has been given with regard to the capital outlay. We have been told by experts of the road that the capital outlay is such that the road has received benefit to the measure of the amount expended. We cannot contradict that, even if we did make an inspection trip over the road.

Hon. Mr. DUNNING: The point is that if we are at all doubtful as to the propriety of this we should examine upon any point upon which we are doubtful.

Mr. DUFF: We cannot open that up now; we have approved of it.

Mr. POWER: That is purely technical. I do not think that the Minister or Sir Henry Thornton want us to have any doubt about it.

Sir HENRY THORNTON: Certainly not. You might say this, if I may be allowed to make this observation, "We are satisfied from the evidence given that the railway properties have received—" and so on.

Hon. Mr. DUNNING: I have no objection to that. We can only satisfy ourselves, as Colonel Cantley says, from the evidence given.

Mr. STEWART (Leeds): You use the words at the top of page 3 "from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting—" and so on. Why not in the other?

Hon. Mr. DUNNING: I see no objection to that.

Mr. POWER: In other words, the evidence given before this Committee would show that the railway properties have received a benefit in keeping with the capital outlay.

Hon. Mr. DUNNING: Insert after the word "satisfied" the words "from the evidence given".

Mr. CANTLEY: That is the only thing upon which you can base your opinion.

The CHAIRMAN: That is, at the bottom of page 2, the last paragraph would then read:

Your Committee has examined in detail the capital expenditures made during the year, which totalled a very considerable sum, and are satisfied from the evidence given that the railway properties have received a benefit in keeping with the capital outlay made.

Hon. Mr. DUNNING: I think with regard to Colonel Cantley's remarks regarding the paragraph at the top of page 3, this could be made to read, "from the auditors' report".

Mr. HARRIS: If you do that I am satisfied, because the very point in my mind is in the auditors' report, by a reservation put in by the auditors on page 13, and of necessity will have to put in for all time to come until such time as, "the investments in road and equipment appearing in the books of the Companies as at the 1st January, 1923, were accepted by us",—that is, until such time as the capital investment is put down on a business basis. That is the reservation of the auditors. If you put in a qualifying and covering statement here of the auditors, I am satisfied with the clause. I am certainly not going to be in the position in regard to this Committee unless the auditors go into the same position.

Hon. Mr. DUNNING: On what page is that?

Sir HENRY THORNTON: On page 13. The auditors' certificate:

We have examined the books and records of the Companies comprising the Canadian National Railway System for the twelve months ended the 31st December, 1927. The investments in Road and Equipment appearing in the books of the Companies as at the 1st January, 1923, were accepted by us.

We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1927, and we further certify that, in our opinion, the attached Income and Profit and Loss Accounts for the year ended the 31st December, 1927, as correctly stated.

There is nothing else they can do or we can do.

Mr. HARRIS: I appreciate that, but I think it would be rather absurd for this Committee to put out a general statement as conveyed in this paragraph which might lead the public to believe that it is the whole proposition.

Hon. Mr. DUNNING: It only relates to a year.

Mr. HARRIS: "As well as additions to capital account."

Hon. Mr. DUNNING: It only relates to the year.

Sir HENRY THORNTON: During the year.

Hon. Mr. DUNNING: This auditors' statement makes the qualification as at the 1st of January, 1923, which is when the properties were put together. It does not relate to the current year at all.

Mr. HARRIS: In that these assets are taken on the books on January 1, 1923, at a certain figure, and that figure is embodied in this report, and this Committee is passing the report.

Hon. Mr. DUNNING: There would have to be a starting point at this consolidation from a bookkeeping point of view. That was done apparently as at the 1st of January, 1923, and everything which has occurred since that time in the way of capital additions has come under the purview of this Committee from year to year. We certainly do not want to say anything which endorses the position as created on the 1st of January, 1923. I agree with Mr. Harris there, that we cannot either prove or disprove—

Mr. HARRIS: That is reflected in the statement.

Hon. Mr. DUNNING: But I do not take it that the language in the report has that effect.

Sir HENRY THORNTON: Suppose we say, "and the expenditures made during the year as well as the additions of capital account for the same period"? That limits it entirely to the last twelve months.

Hon. Mr. DUNNING: I am afraid that would not quite do, Sir Henry.

Sir HENRY THORNTON: Or you could say this: "and reflects accurately the revenue, receipts and expenditures made as well as additions to capital account during the year." Move the phrase "during the year" to the end of the paragraph, and that will qualify everything which precedes it.

Hon. Mr. DUNNING: Or put the words "during the year" again after the words "capital account", and it will have the same effect. It will then read:

The Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the capital account during the year.

Mr. McLEAN (Melfort): Sir Henry Thornton's phrase was, I think, the better one:

Mr. CANTLEY: Put the words "during the year" at the end of the paragraph.

Sir HENRY THORNTON: That qualifies everything that precedes it, if I remember my school-books.

Mr. HARRIS: Before you go on with that, would this suggestion help:

Your Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the capital account.

and then add the words "for the year"?

Mr. POWER: Leave out "during the year"?

Hon. Mr. DUNNING: Your suggestion, Mr. Harris, would be that after the word "account" we add the words "for the year"? That would include the principles of accounting and everything during the year. After all, that is all this Committee has to do.

Mr. CANTLEY: Would you include the words "from the evidence given" or "the auditors' report"?

Hon. Mr. DUNNING: It is all part of the evidence—part of the record.

Mr. HARRIS: After the words "accordance with" insert the word "a"—"are in accordance with a recognized practice—" and so forth.

Mr. JELLIFF: The account covers the total year of 1927?

Mr. DUFF: Why not insert after the word "is" in the first line the word "also" or the words "further satisfied", because you use the word "satisfied" in the preceding paragraph. Would that not read better?

Hon. Mr. DUNNING: I do not think it makes any difference. Mr. Harris has now made a suggestion which is quite debateable.

Mr. POWER: Why not say "the evidence shows there is a recognized practice"?

Sir HENRY THORNTON: There is one and only one recognized practice.

Hon. Mr. DUNNING: Inserting the words "a" implies that there is more than one.

Mr. HARRIS: One of the officers of the company, Mr. Cooper, suggested that there were several ways of treating the same point.

Hon. Mr. DUNNING: All within the same recognized practice. We could examine Mr. Cooper again on that.

T. H. COOPER recalled.

Mr. HARRIS: I think Mr. Cooper will recall that some railroads found it good practice to set up depreciation to take care of the exhaustion of different elements, while other railroads did not. Some of the class "A" roads did and some did not.

Mr. COOPER: You are speaking of road property now?

By Mr. Harris:

Q. Yes.—A. Speaking of roads in the United States, they all accrue depreciation on equipment, but it is optional in so far as it concerns road property—fixed property.

Q. We do not accrue any depreciation on our road?—A. No, we do not, with one exception which was explained to the Committee.

Q. That makes it a little different in practice from that of the class "A" roads in the United States?—A. Yes.

By Mr. McLean (Melfort):

Q. What about the practice of the other roads in Canada?—A. The C.P.R. does not accrue depreciation on equipment. I do not know what their practice is, but I know they do not accrue depreciation on equipment.

By Hon. Mr. Dunning:

Q. They do not?—A. They do not.

Q. And we do not?—A. And we do not.

Q. And all class "A" roads in the U.S. do?—A. They all do, on equipment. It is mandatory so far as the I.C.C. regulations are concerned to accrue depreciation on equipment, but the regulations do not prescribe any rate, so that I think the mandatory provisions of the regulations are somewhat voided.

Q. They have very low rates?—A. Some of the roads have.

Mr. HARRIS: The Committee must realize it is almost impossible to strike a rate when the investment in road and equipment is almost \$2,000,000,000. It seems to me, as I review the evidence, there are two classes of railroad accounting, probably both good.

Hon. Mr. DUNNING: My question related to the mandatory provision of the I.C.C. Of course, back of it was the idea that the I.C.C. definitely recognized a statement of accounting in connection with which there is apparently, according to Mr. Cooper's evidence, a mandatory provision with respect to depreciation of equipment, but none with respect to depreciation rate paid. Mr. Cooper's further evidence is that although it is mandatory to provide depreciation on equipment there is no mandatory rate to the effect, and the mandatory provision is very largely vitiated by the freedom of the companies to charge as low a rate as they like.

By Hon. Mr. Dunning:

Q. Have you any ideas of the rates charged by the U.S. class "A" companies, which would give us an idea of what is done in regard to equipment?

Mr. HARRIS: The rate on the C.N.R. is zero.

Hon. Mr. DUNNING: Yes.

The WITNESS: Some of the roads adopt a rate of $1\frac{3}{4}$ per cent and some $1\frac{1}{2}$ per cent. They run all the way up to 6 per cent, which seems to be the highest rate. $1\frac{1}{2}$ per cent seems to be the lowest rate, so far as the list of roads which I have here is concerned.

By Hon. Mr. Dunning:

Q. Tell me, Mr. Cooper, what in your accounting practice takes the place of that depreciation item?—A. On the Canadian National we have adopted the practice of writing out from the property account by a charge to operating expenses the ledger costs of all equipment retired from service. As equipment passes out of service, we retire the equipment from the property account by a charge to operating expenses, and we think that over a period of time we get precisely the same results as if we were to adopt a depreciation account.

Q. In order to make that comparison, tell me now what do the American class "A" roads do with regard to retirement, that is, those which have a depreciation account? How do they deal with retirements?—A. They also write the equipment out of the property account and into operating expenses, but they charge it to reserve. The accrual depreciation more evenly expresses the retirement of equipment over a period of time.

Q. They charge the retirement against a depreciation account previously accumulated?—A. Accumulated by a charge to operating expenses so that over a period of years we must arrive at the same result. There is one further observation which I might make and that is that the Canadian authority, which is the Board of Railway Commissioners, did not adopt the Interstate Commerce Commission's regulations in their entirety. For a period they objected to accrual of depreciation. In fact, we had a case—the St. Clair Tunnel Company—which was one half in the States and one half in Canada and to comply with the regulations in the States we did accrue depreciation on equipment, and the Dominion Bureau of Statistics insisted that we cancel those depreciation charges, and there is to-day no regulation, so far as the Canadian regulations go, which compel us to adopt depreciation on equipment.

By Mr. Jelliff:

Q. Would not the result of that make our net earnings show less, which would be an advantage before the public?—A. You mean by the non-accrual of depreciation?

Q. Yes. If you take the item there of operating expenses, it makes your net earnings less which makes really a more sound showing, it seems to me, for the Canadian people.—A. By taking care of equipment retirements as and when those retirements take place, you are dealing with actual facts. If you are dealing with accruals of depreciation you are making estimates and guesses based on expectation of life, and quite a number of factors enter into that. Our conclusion was that our method was sound, and that over a period of years would produce the correct results, so far as operating expenses are concerned.

By Mr. McLean (Melfort):

Q. Some of your road is in the United States and some in Canada. Do you follow the two practices—that of the Interstate Commerce Commission in the United States?—A. On the Canadian National lines in the United States we are compelled to adopt the same regulations.

Q. Do the other Canadian railroads, in connection with their Canadian equipment, follow the same practice as you do?—A. I cannot say what they do, but I do say that they do accrue depreciation—speaking of the Canadian Pacific in particular.

By Mr. Harris:

Q. What is the \$60,000,000 which the C.P.R. show in their annual report as "Depreciation"?—A. In the Canadian Pacific Report they have an item of "Equipment and Replacement Reserve" amounting to \$1,157,000. The Canadian National balance sheet shows accrued depreciation against equipment of \$6,500,000. In the case of the Canadian National that is only in respect to lines in the United States, so that we have six times as much equipment depreciation accrued on our American lines as the Canadian Pacific has on its entire system, and I think I am safe in saying that the Canadian Pacific do not accrue depreciation on equipment.

Q. I understood you to make the statement in your previous examination that they wrote it off each year.—A. I did not testify at all as to what the Canadian Pacific did.

Hon. Mr. Stevens:

Q. I have just come in, and perhaps I should apologize for asking a question, but this touches a point we discussed previously, namely, the methods you follow in writing off the full amount when a piece of equipment is discarded, and the other method of writing off a percentage each year. I know nothing about the Canadian Pacific, but I am presuming we are discussing the National method which is followed in writing off the full amount when the equipment is discarded.—A. Yes.

Q. But does not write off anything in the interim. I raised that question—Sir Henry Thornton was not here—when we discussed that principle. In fact, I rather agree with the principle which you follow as being a sound one, given a proper starting point, if I may use that expression. So as to familiarize you, Sir Henry (Thornton), with that point I will say that the question I raised was that in the history of the operations under your control the procedure upon which apparently no definite information can be given, namely, that it was not known when you took it over whether a reasonable depreciation had been provided for or not, and you did not even know what method was followed, whether written off annually or by the process now adopted; consequently when you took over there was a given amount of equipment and we have no method of finding out whether it was written in the books at a fair valuation or whether it had an enhanced valuation, or whether it was the extreme reverse, more written off than was warranted—

Sir HENRY THORNTON: What happened was this—

Hon. Mr. STEVENS: Just let me complete this one point.—therefore, we are unable to say whether the process now followed is a just one. I am inclined to agree that it is fair enough to write off the full amount when the piece is discarded, if when you start you know just where you are at, and have a fair valuation of the equipment in hand.

Sir HENRY THORNTON: Whatever may or may not have been done prior to January 1, 1923, what happens now is that when any particular part of our equipment disappears from service, it is all written off, so we are taking up whatever may have been the misdeeds of the past in our policy with respect to the present and the future.

Before you came in Mr. Cooper pointed out that there were two schools of thought in connection with that and we decided, after a great many years of discussion and argument, that the practice we are following now, spread over

a period of years, is more accurate and reaches substantially the same result as setting up an annual charge to depreciation; that is, if you take it through a period of years, we are charging at a basis of exact figures rather than a setting up of a percentage of depreciation which is based on the expectancy of life of equipment. Therefore, over a period of years we get precise results. The policy we are following is not only, we think, a sound policy but it is about the only policy which we can follow, having regard to the fact that we do not know what happened prior to 1923.

Hon. Mr. STEVENS: That frankly brings us to one point about which I feel very much perturbed; that is in this clause which I understand is now before the Committee, it says:

Your Committee is satisfied from the evidence given that the accounts as presented are in accordance with recognized practice in railroad accounting and reflect accurately the revenues received and the expenditures made during the year, as well as the additions to the capital account.

Now, I am not inclined to call that into question in so far as the method is concerned, but in those accounts you have one item which I mentioned the other day, one billion, nine hundred million and some odd dollars, "Road and Equipment", which includes the very point we are now discussing, namely, the value of all your equipment and we have no way through your accounts of understanding whether that \$1,900,000,000 is reflected in anything like the accurate or reasonable value of the actual assets. We cannot determine that. Therefore, how can we say that the accounts accurately reflect the situation?

Sir HENRY THORNTON: I think before you came in there was some modification made in that paragraph which perhaps may clear up the question in the minds of the Committee. This Committee is dealing with this year, and it was proposed to so change the paragraph as to indicate that the Committee were satisfied with respect to what happened this year. Perhaps if the Chairman would read it as proposed, it might meet your point.

The CHAIRMAN: That clause reads now: "Your Committee is also satisfied from the evidence given that the accounts for the year 1927 as presented are in accordance with recognized practice in railroad accounting, and reflect accurately the revenues received and the expenditures made during the year as well as the additions to the capital account during that period."

Hon. Mr. STEVENS: Yes. The only thing is—I think it will be recognized by my language, that I am not reflecting on the present management, that is, on the management say of the last eight or ten years—we have no starting point in these accounts other than, of course, to go right back to the beginning of the different systems.

Sir HENRY THORNTON: We were obliged to accept the accounts as of January 1, 1923. When I say, "we" in that sentence, I mean you and I and all of us. Now, whether they are right or whether they are wrong, whether they are right or wrong, we cannot correctly determine, and we accept that as it is, and then we proceed to see that year by year, so far as the operations of each year are concerned, that they are accurate, and in accordance with recognized accounting practice. Now, whatever mistakes may have been made prior to 1923 in regard to equipment, we catch that up year by year in charging off the value of each piece of equipment, as it disappears from service. We may be accepting an excessive burden, I do not know.

Hon. Mr. STEVENS: Except in this regard, Sir Henry; we will say there were fifty years of operation preceding your advent to office. If during that fifty years there was a substantial quantity of equipment bought, used, and discarded, and not written off, it would still be carried in the account known as

"Road and Equipment." Its value would remain in there as an asset when it has disappeared long ago.

Hon. Mr. DUNNING: What can we do to remedy that?

Sir HENRY THORNTON: I do not know what we can do with that.

Hon. Mr. STEVENS: I think this is the crux of the whole matter, the correct representation of the picture.

Hon. Mr. DUNNING: It comes back to the value of what the Canadian people pay for what they got.

Hon. Mr. STEVENS: Just the reverse. It comes back to what the people got for what they paid.

Hon. Mr. DUNNING: That means the same thing.

Hon. Mr. STEVENS: No, I think not. We are the buyers.

Sir HENRY THORNTON: I may say, Mr. Stevens, that since 1914, the Interstate Commerce Commission in the United States has been trying to solve that problem. That is twelve years ago, and they have not yet solved it.

Hon. Mr. STEVENS: Yes, I know that. They have taken some steps though. They have made some revaluations and appraisals and so on. However, I do not want to get myself into the position of seeming to reflect on the management. What I am reflecting on is the accuracy of the picture to the people of Canada, which includes of course, necessarily, modern accounts as well as old accounts.

Hon. Mr. DUNNING: There was only one way originally, whereby that could have been done, and that was by taking over these properties through receivership instead of assuming the entire liability.

Hon. Mr. STEVENS: I agree with that, but that is an old story.

Hon. Mr. DUNNING: I had some strong opinions on it at the time, but to start now and try to bring about the same result as would have been secured through receivership originally, is awfully difficult.

Hon. Mr. STEVENS: I know, but if I may put it in this way; we are dealing here as shareholders of an enterprise. We are more or less a small body of representative shareholders. We are giving out to the great body of shareholders of this enterprise, a picture.

Sir HENRY THORNTON: You are a committee of shareholders.

Hon. Mr. STEVENS: And we are giving out a picture of this enterprise. If we give our stamp of approval on this statement, we are saying to them, "this statement which is published in the press, reflects accurately the whole picture." I will agree that by your amendments you are limiting it, but it will not have that effect on the public. The effect on the public will be that that is an accurate presentation. In that presentation is included the sum total of old accounts for fifty years prior to the present management, and that I submit with all deference,—I think Sir Henry will agree with me at once in all probability,—is far in excess of its actual value.

Mr. McLEAN (Melfort): I think, Mr. Chairman, that the public will take it that we are presenting a picture of the road in 1927, the condition of the accounts and property as compared with 1923, when we established these valuations, and as in 1926, when the accounts were in a certain condition. This is only a comparative picture as of these years.

Hon. Mr. STEVENS: We have never established any valuation, Mr. McLean; that is the unfortunate part of it.

Hon. Mr. DUNNING: Not a valuation, which could only have been established through a receivership in the first place. There is one accurate way of determining the value of a property which is bankrupt, as these companies were;

and that is, by going through a receivership, and ascertaining the value by competition in the purchase price from the receiver. Had that been done, originally, we would of course have had the value as of that date, the value determined by what the people who were buying it thought it was worth; which is, after all, the real index of value under those circumstances. The Chicago-Milwaukee, I think, is an excellent parallel to that situation, and it has been just recently cleared up, and there was, as Mr. Stevens says, a very drastic writing down of values, but the writing down of values was accomplished, not by any arbitrary appraisal of different classes of equipment, but on the basis of what some one was willing to pay for it, which is, after all, the great index in connection with a situation of that sort. I appreciate that all this discussion, Mr. Chairman, is leading—and properly leading—to the question of the present capitalization of the C.N.R.; and after all, it gets down to this, the Canadian people have spent this money; whether it remains charged to Canadian National account as it is to-day, or charged to the Minister of Finance, Dominion Account, is not of much importance to the Canadian people; they are out the money anyway. What is of importance is a correct picture of this utility, and on that point, I think I can assure the Committee that both the Government and management are working on the question of capitalization, and have been now for a very long time. I assure you, Mr. Stevens, it is a most complex thing, and frankly, we have almost abandoned the idea of getting at it on any basis of valuation. I think I can say that, Sir Henry, that any basis of valuation, would appear to be the wildest guess with respect to a very large part of this property. We are looking at it now, rather from the point of view of relations between the Dominion and the company financially.

Hon. Mr. STEVENS: Why, Mr. Minister, should it be a question of the wildest guess. Frankly, I do not agree with you there.

Hon. Mr. DUNNING: Have you looked at the comparative valuations of existing class A roads, even including the Canadian Pacific? The comparison is so wide that I would think it justifies what I have said.

Hon. Mr. STEVENS: But you are talking about book valuations, which is not necessarily a correct estimate.

Hon. Mr. DUNNING: No, the accepted valuations of the Interstate Commerce Commission of the particular roads. That is the difficulty.

Hon. Mr. STEVENS: You mean, under their re-valuation scheme of ten or fifteen years ago?

Hon. Mr. DUNNING: Yes.

Hon. Mr. STEVENS: What do they place it on? A replacement value basis, I think?

Hon. Mr. DUNNING: No.

Sir HENRY THORNTON: Cost, and reproduction. There are three ways in which you can value a property: First, on the basis of what it cost; what it would cost to reproduce it, or on the basis of what it earns. And from those three points, you can argue for years, and still reach no conclusion which will satisfy every one.

Mr. McLEAN (Melfort): Could you value it on the basis of what you think some one would pay for it?

Sir HENRY THORNTON: That would be a pure speculation.

Mr. CANTLEY: Mr. Chairman, are we not only dealing with the account of the revenues received, and the amounts expended during the past year?

The CHAIRMAN: Yes, that is right.

Mr. CANTLEY: Then it appears to me that all this discussion is not in point.

Mr. HARRIS: That is what we started on when I raised the point. If we get back there, we might get somewhere.

Mr. CANTLEY: Am I right in the suggestion that the accounting is in accordance with the rule laid down by the Railway Commission?

Sir HENRY THORNTON: Yes, that is right.

Mr. CANTLEY: Then why do we not say so instead of saying it is a recognized practice in railway accounting?

Sir HENRY THORNTON: You may put it that way if you like. I did not draw the report.

Hon. Mr. DUNNING: Is it correct to say the Railway Commission laid down rules on accounting, Mr. Cooper?

Mr. COOPER: Yes.

Hon. Mr. DUNNING: Then, your accounting is in accordance with the rules of the Railway Commission.

Mr. CANTLEY: Why not pass it on to that Commission, then?

Mr. McLEAN, (Melfort): I would judge this: if you want it absolutely accurate in this statement, we would have to say that the accounting is in accordance or the accounts as presented are in accordance with the recognized practice in the respective countries in which the properties are situated. We have one system, under the Interstate Commerce Commission, of dealing with equipment, and another in Canada; both probably equally fair and useful, but slightly different.

Hon. Mr. DUNNING: That brings you back exactly to the language that is in the report as covering the situation.

Mr. McLEAN: Quite so. It might be changed as I have suggested.

Sir HENRY THORNTON: You might say the "prescribed" instead of the "recognized" practice. Prescribed, means of course, prescribed by law.

Mr. CANTLEY: Why not fall back on the highest authority we have, the Railway Commission.

Hon. Mr. DUNNING: Because they do not govern us with respect to the United States. There, the Interstate Commerce Commission governs us.

Hon. Mr. STEVENS: It does not cover your full accounting system.

Hon. Mr. DUNNING: We could use the word "prescribed" instead of "recognized." Then, there would be no question about it fulfilling the requirements of both countries.

Mr. CANTLEY: That is better.

Mr. HARRIS: We certainly ought to say what railway accounting we refer to. We should not use the bald statement "recognized railway accounting" when this Committee knows it is not in accordance with the Interstate Commerce Commission, whose railways are a great deal more in magnitude than those under the Railway Commission.

Sir HENRY THORNTON: If you say "prescribed" that necessarily must mean the practice prescribed in each country. It cannot be anything else.

Hon. Mr. STEVENS: The only thing is that in Canada the portion of the practice that is prescribed is limited in comparison with the whole.

Sir HENRY THORNTON: "Prescribed" still covers it. When it is prescribed, it is prescribed insofar as Canada is concerned, by our own laws and regulations. It is similarly prescribed in the United States.

Mr. McLEAN: If you want to go further, you might say "as prescribed by the governing authorities," if more detail is wanted, which I think is not.

Sir HENRY THORNTON: As prescribed by law or regulation.

Mr. STEWARTS (Leeds): I would like to ask Sir Henry if the method of writing off equipment has been followed since the road was taken over?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: That is not the date at which the roads were taken over. That is from the date of the Consolidation when Sir Henry took charge. What happened prior to that time, Mr. Cooper?

Mr. COOPER: Each company had its own method; the Grand Trunk one method, the Canadian Government Railways another. I say, method, but generally speaking, they did not have any method at all; they did not have a uniform method.

Hon. Mr. DUNNING: The Canadian Northern had a different one still.

Mr. COOPER: I presume so. The Canadian Government Railways did not write anything off. The Grand Trunk had a practice of replacing a unit by another one. If they bought one thousand box-cars, to the extent that they had to make good a certain number of units, that was an operating charge. Any additional amount was a capital charge; that was their practice.

Hon. Mr. DUNNING: That would produce the condition Mr. Stevens speaks of. Did you get that Mr. Stevens? He speaks of the old Grand Trunk practice.

Hon. Mr. STEVENS: You have the three systems, the Grand Trunk and so one. None of them was the same, and nobody knows apparently whether there was a fair depreciation or whether they wrote off anything at all.

Hon. Mr. DUNNING: Mr. Cooper has described the system on the Grand Trunk. Will you repeat that, Mr. Cooper, with respect to your illustration of a thousand box cars?

Mr. COOPER: They went by units. Their capital account was supposed to represent so many locomotives and cars, and so on. Now, taking the actual count necessary to replace the units in service, it would be treated in this way: The replacement of those units was an operating charge; any additional purchase was a capital charge. That had the effect of charging to operating expenses the cost of substituting a modern unit for an equipment unit which was purchased away back in early times.

Hon. Mr. STEVENS: Which is a fair thing? If you discard one engine, and replace it with another one by the exigencies of the present demands, it should be charged to operations.

Sir HENRY THORNTON: Well, no. Strictly speaking, Mr. Stevens, if you replace a locomotive of a certain tractive power with a locomotive with twice that tractive power you ought to charge to capital the half of the expense, from an accounting point of view. You have the same thing in the renewal of rail. If you renew a fifty pound with a hundred pound rail, you charge to expense the cost of renewal in kind, and the additional cost to capital.

Hon. Mr. DUNNING: Have you any knowledge, Mr. Cooper, of how long prior to the amalgamation the Grand Trunk followed that practice?

Mr. COOPER: I should say for twenty years.

Hon. Mr. DUNNING: That helps us in getting an approximate idea of the bearing of it; nothing final, of course. It does not look as if the equipment was inflated very much when you got it, if they had been following that practice for twenty years on the Grand Trunk.

Mr. COOPER: The Grand Trunk itself was a consolidation of any number of companies, and to go back beyond twenty years would be almost impossible.

Hon. Mr. DUNNING: If you take twenty years in the life of equipment, there would not be much left prior to the twenty years, would there?

Mr. COOPER: Yes.

Sir HENRY THORNTON: Oh, yes, I should think so.

The ACTING CHAIRMAN (Mr. Power): Is the Committee satisfied? Then, it is desired to alter the clause by inserting the word "prescribed" instead of "recognized" on the second line.

Mr. HARRIS: I think it might be well to go a little further than saying "prescribed in the respective countries." That would indicate that it was in accordance with the prescribed practice.

Hon. Mr. DUNNING: I am quite satisfied with either "recognized" or "prescribed". I think it covers the point either way.

The ACTING CHAIRMAN: Is the Committee satisfied that the accounts as presented are in accordance with the prescribed practice in railroad accounting? We will take it then that the word "prescribed" is inserted instead of "recognized".

Hon. Mr. STEVENS: There is only one other point in approving of that clause, which, after all, I would look upon as perhaps one of the most important clauses in this whole report. It is this: You have segregated the Central Vermont Railway and the evidence is, I think, clear on this, that we have invested in the Central Vermont Railway a very much larger sum than its value; and furthermore, we are spending what is it—\$5,000,000, acting as receivers?

Sir HENRY THORNTON: The receivers are spending that, not the Canadian National. We have not guaranteed that.

Hon. Mr. STEVENS: You are acting as receivers, are you not?

Sir HENRY THORNTON: No. The receivers are appointed by the court, and they are the officers of the court.

Hon. Mr. STEVENS: It is a first charge before all your charges, so you will have to assume it, whether you like it or not, or lose your thirty millions. I mean, that you have to assume that, Sir Henry?

Sir HENRY THORNTON: When it comes to the reorganization, that question will have to be considered.

Hon. Mr. STEVENS: It is a first charge. It will take precedence over all other charges.

Sir HENRY THORNTON: Oh, yes, the receivers' certificates, of course, are prior charges.

Hon. Mr. STEVENS: So you will have to remove that before you can receive your own. Whether you take possession of the road, or otherwise, you would have to assume that cost. What I was coming at was this: No matter what method you use, the point is that that five million dollars is a replacement of what was the result of a disaster due to flood and normally should go into "Operation".

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Certainly it should go into operation, but, by taking the Central Vermont out of the picture entirely, by the process of putting it into liquidation, you are removing from the operation and expense accounts the replacement of that road?

Sir HENRY THORNTON: May I ask that no report be made now with respect to the discussion of the Central Vermont? That is, no stenographic report.

The ACTING CHAIRMAN: Is the Committee agreeable to that?

Carried.

Discussion followed.

The ACTING CHAIRMAN (Mr. Power) (To the shorthand reporter): (You may continue now.)

Hon. Mr. STEVENS: Assuming that the Eastern lines lost money before the Maritime rates came into force, a year before; then, the Maritime Freight Rates came into force making a code or tariff of rates of so much. That code is assumed by the country, but you do not show in that, do you, the losses you have previously made or the losses made independently of that code? Is it included in the main statement?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: In this statement?

Hon. Mr. STEVENS: No, in the main statement.

Hon. Mr. DUNNING: No, it is not there.

Hon. Mr. STEVENS: It should be there.

Hon. Mr. DUNNING: It is a payment from the former Government under the terms, to the railway. That portion is a payment from the Government to the railway.

Hon. Mr. STEVENS: I have not made myself clear. That portion which is not included in the 20 per cent reduction?

Hon. Mr. DUNNING: Is a payment from the Crown to the railway. That was the principle adopted.

Hon. Mr. STEVENS: It should be shown in this statement.

Sir HENRY THORNTON: What Mr. Stevens means is that prior to the existence of the so-called Eastern lines, the lines in that territory were operated at a loss. Now, under present conditions, he says that loss, plus the loss due to a reduction in freight rates, is all put in one sum, and is separated from the accounts of the National Railway as a whole.

Hon. Mr. STEVENS: Exactly.

Major BELL (Deputy Minister): That appears in the Departmental estimates, divided; showing the totals of the separate amounts.

Sir HENRY THORNTON: Without discussing whether that is correct or not, right or wrong, in preparing our reports we are simply following the legislation which has been passed, and therefore, any argument with respect to that, is an argument as between this Committee and Parliament, and not between the Committee and the Railway. We are simply carrying out the law as it has been passed.

Hon. Mr. STEVENS: As I understand the law, and I am speaking from memory, it said that you must set up a separate account. That was for the purpose of ascertaining what the amount to be paid under the Maritime Freight Rates Statute should be. I appreciate that, but that does not mean that it should not be placed in the composite statement. My opinion is that there should be shown in the main statement the total loss, and the contribution should be shown as an item of special revenue. Then the net amount would be reflected in the main statement.

Sir HENRY THORNTON: The policy we are following now and the reason it is being followed is in order to avoid very complicated and difficult accounting.

Hon. Mr. STEVENS: Frankly, Sir Henry, with all due deference, I cannot see the difficulty; not in the preparation of your statement. I can quite see the necessity of keeping your books of account separate, but in reflecting in your statement you take into consideration the full result of all your books.

Sir HENRY THORNTON: We would have to estimate each year what the loss would have been had a reduction in freight rates not been made.

Hon. Mr. DUNNING: I think I see Mr. Stevens' point now, and I do not know why it should not be done if it would make it any better. It would mean that you would show as revenue, in your general statement, the amount received from the Government, under the provision of the Maritime Freight Rates' Act, but the net result would be exactly the same as it is now.

Hon. Mr. STEVENS: No.

Hon. Mr. DUNNING: There would be no difference, because we come out of the Eastern lines absolutely clear.

Hon. Mr. STEVENS: But, Mr. Minister,—it may be my failure to make the thing clear,—but here is the point. You have two classes of losses, we will say, in the Maritime provinces.

Hon. Mr. DUNNING: If you are coming back to the justification under the law, yes.

Hon. Mr. STEVENS: One is the normal loss, and the other is a statutory loss. Parliament has voted money for the statutory loss. That would be one off-setting the other. Parliament has provided for the off-setting of the statutory loss; one would cancel the other on your revenue and expenditure; but your normal loss is not included as it would in previous years have been included in your main statement.

Hon. Mr. DUNNING: That is quite right.

Hon. Mr. STEVENS: And it should be included in there.

Sir HENRY THORNTON: It might clear things if I read the law. "For accounting purposes, but without affecting the management and operation of any of the Eastern lines, the revenue and expenses of the Eastern lines including the reductions herein authorized, which shall be borne by the Eastern lines shall be kept separately from all other accounts respecting the construction, operation and management of the Canadian National Railways. In the event of any deficit occurring in any railway fiscal year in respect of the Eastern lines, the amount of such deficit shall be included in a separate item in the estimates submitted to Parliament, for or on behalf of the Canadian National Railways, at the first session of Parliament, following the close of each fiscal year."

Hon. Mr. STEVENS: I do not object to that at all. By all means, keep your accounts separate in accordance with that Statute; but after all, this set of accounts which you have in this red book (indicating) is supposed to reflect to the country the effect of the Canadian National Railway operations whether in the United States or Canada, or wherever it is. My point then is that in this account should be included, separate of course, and kept in a specified item, not only the statutory loss, but the normal loss of the Eastern lines.

Hon. Mr. DUNNING: But you did not listen to that Statute, Mr. Stevens?

Hon. Mr. STEVENS: I did listen to it.

Hon. Mr. DUNNING: No, that Statute authorizes the deficit on the Eastern lines to be treated in that way.

Hon. Mr. STEVENS: I know, in the estimates, in a separate item, and if you put it in your statement, as a separate item, you are absolutely complying with the law. You might say, for instance, that the British Columbia Northern, the Canadian Northern lines should be kept separately. I just mention that as a shot in the dark, and they should not be included in here. There is no difficulty, from an accounting standpoint, of including that in the statement.

Hon. Mr. DUNNING: The only difference between us is that from my point of view, the accounting result would be the same. If the law is complied with, the contribution from the country would be included as revenue, the contribution being composed of two items in accordance with the law; one the item due

to the 20 per cent reduction on Eastern lines, and the other, the remaining portion of the deficit on the Eastern lines. That is what the law says.

Hon. Mr. STEVENS: No, only that portion would be included as revenue which was statutory.

Hon. Mr. DUNNING: It is all statutory.

Mr. CANTLEY: Mr. Stevens wants a consolidated account, which he says this is not. Is not that it?

Hon. Mr. DUNNING: If that is what he wants, there is no difficulty in providing it.

The ACTING CHAIRMAN: As I understand it, Mr. Stevens' interpretation of the Statute is not quite the same as the Minister's. That is the difficulty there.

Hon. Mr. STEVENS: There is a difficulty in our interpretation.

Sir HENRY THORNTON: Shall I read the law again? (Reading).

For accounting purposes, but without affecting the management and operation of any of the Eastern lines, the revenues and expenses of the Eastern lines including the reductions herein authorized, which shall be borne by the Eastern lines, shall be kept separately from all other accounts respecting the construction, operation and management of the Canadian National Railways. In the event of any deficit occurring in any railway fiscal year, in respect of the Eastern lines, the amount of such deficit shall be included in a separate item in the estimates submitted to Parliament for or on behalf of the Canadian National Railways, at the first session of Parliament following the close of each fiscal year.

It provides for separate accounts, and that is separate.

Hon. Mr. STEVENS: That is so, and there is no objection to that.

Hon. Mr. DUNNING: That is the general deficit.

Hon. Mr. STEVENS: No, you are mixing two things. You are mixing the form of keeping your accounts, and the form of making an annual statement to your shareholders. There is a vast difference between the two. The statement presented to the shareholders should reflect all the operations and the combined operations of your company or companies. It does not make a particle of difference whether they are kept in one or forty sets of books.

Hon. Mr. DUNNING: Agreed so far.

Hon. Mr. STEVENS: Now, my point is this: In presenting to Parliament, and therefore to the country, two reports, one representing the Eastern lines, and one representing the system as a whole, you are giving to the country a fair and true picture of the whole story.

Hon. Mr. DUNNING: You agree that, if the returns were put together, it would be?

Hon. Mr. STEVENS: Yes, I say that the result of yellow book, and the result of the Central Vermont ought to be included in the main statement presented to the Committee. Those are my contentions in a nutshell.

Mr. CANTLEY: And call it a consolidated annual report?

Hon. Mr. STEVENS: Exactly.

The Acting CHAIRMAN: Leaving that aside, what would they do with respect to the definite instruction in the Statute to keep them separate?

Hon. Mr. STEVENS: All that does is to tell them to keep their accounts separate, not to present it to Parliament separately.

The Acting CHAIRMAN: I was of your opinion first, because I did not understand the Statute. But, it covers the normal deficit, as you call it, and the

deficit due to the reduction in rates. It covers both. Then, it does not make any difference. It does not make the slightest difference then.

Hon. Mr. STEVENS: All that provision means is to keep your books and accounts separate so that you can arrive at a clear picture of the operation of the railway under this question. Then, the Statute says any deficit that arises, whether statutory or normal shall be shown in these estimates in a separate item, instead of being included in some other item as some of these are grouped.

Hon. Mr. DUNNING: There is necessarily a difference. You would not for a moment approve of a deficit being included in an item of this character because this represents borrowed money. The deficit on the Eastern lines is included in the estimates of the Department of Railways and Canals, and is a payment from the Department to the railways.

Hon. Mr. STEVENS: That is all right. You have an estimate specifying to Parliament what it is. But, it does not say it shall not be included in a composite statement of the company.

Hon. Mr. DUNNING: No, I have no objection to that. The only difference between us is as to what the result would be. I say the result would be exactly the same. The final summation in the red book would not be the same as in the yellow book. I am speaking of net income, of course.

Mr. COOPER: It would undoubtedly change the operating accounts?

Hon. Mr. STEVENS: Certainly, it would.

Hon. Mr. DUNNING: In what way?

Mr. COOPER: The deficit of the Eastern lines including the statutory reduction, would be included in the net operating revenue of the National system.

Hon. Mr. DUNNING: Then the item from the Government would come in as income to off-set it.

Mr. COOPER: Yes, the part other than the statutory. The statutory you argue, should be a revenue?

Hon. Mr. STEVENS: Exactly

Mr. COOPER: But, the balance of the contribution would be an income credit, excluded as a credit, from operating.

Hon. Mr. DUNNING: But included as a credit to income.

Mr. COOPER: Yes.

Hon. Mr. DUNNING: That is an accounting mystery to me. All I know is that the net result is that the Government pays for the whole deficit on the Eastern lines, as a contribution to the Canadian National. That is the principle of the law.

The Acting CHAIRMAN: There is no way of getting it back. It is not a loss, it is a straight contribution.

Hon. Mr. STEVENS: I am not talking about getting it back, or paying for it. That is done by the Government. But, it shows a different picture, that is my point.

Mr. McLEAN (Melfort): Only in the event of there being a surplus on the Eastern lines, with the actual earnings, and the contribution of the Government, and the 20 per cent reduction. Would it make any difference if included in the red book? If there should be a deficit in addition to the 20 per cent, then there is nothing to carry it forward to the red book.

Hon. Mr. DUNNING: Do you see any objection, Mr. Cooper, from an accounting point of view, in another year, to including the red book the summation of results on the Eastern lines?

The Acting CHAIRMAN: You would include two items: Amount of normal deficit, so much; amount of deficit under the Statute, so much; and then an-

other item, amount received from the Dominion Government to recoup, so much.

Sir HENRY THORNTON: Then what would happen is that you would find certain individuals and certain interests that may be unfriendly, say; "Look at the awful performance that the Canadian National has made." They will include all the deficits of the Eastern lines, and charge that up to us.

Hon. Mr. STEVENS: As long as you gave your revenue account credit for the statutory amount, that you receive under the Statute, all you would reflect then in your operating statement would be your normal loss on the Eastern lines, which should be reflected there in any case.

Sir HENRY THORNTON: But the Statute specifically reads to the contrary. I am not arguing whether it is wise or not, but the Statute specifically says all the deficits on the Eastern lines are to be kept separately, and brought in as a separate estimate.

Hon. Mr. STEVENS: That does not mean that it should be excluded from the statements of this company.

Sir HENRY THORNTON: It is not. Both books come before the shareholders.

Hon. Mr. DUNNING: There is not a question of principle, but just one of accounting.

The Acting CHAIRMAN: What do you say about the meaning of this, "kept separately from all other accounts respecting construction, operation or management of the Canadian National Railways?"

Hon. Mr. STEVENS: That refers to the accounting, and I agree with it to the letter.

Sir HENRY THORNTON: You cannot return them the amount.

The Acting CHAIRMAN: You are right in that.

Hon. Mr. STEVENS: It is there for accounting purposes.

The Acting CHAIRMAN: We have wandered far afield from the Section.

Hon. Mr. DUNNING: The important point here, and if we are wrong, I think the Canadian National officers will take the view of this Committee as to the manner of presenting the statement for another year; I am personally satisfied that under the law, the presentation of the accounts to us could be in either of the forms suggested, but I do submit that the principle of the law, the Maritime Freight Rates' Act, was, that this Dominion recognized that the State, apart altogether from its general railway matters, had a definite obligation towards that part of Canada with respect to transportation; in fact, it has always been since the Government lines were turned over to the National for operation—it has always been a very grave question as to whether the National Railways were not entitled to receive each year by way of a separate vote, the amount of the deficit on the Government lines which were handed over to them to operate. After all, they are not a part of the Canadian National system as yet, although they may be. Now, that was not done until this year. Then the year after the Maritime Rates' Act, we said we had a Dominion National obligation towards this part of the country; we do not expect the Canadian National to be burdened with deficits with respect to it, we will deal with that part of the system as a national charge, and we will pay it to the Canadian National so that the Canadian National as a railway organization, will not be burdened with something, which, because of the nature of construction, and all that attended it, and the obligations of Confederation, and so on, is not strictly speaking a railway matter, and should not be handled in the same manner as the rest of the system. Now, that was thoroughly gone into in Parliament last year, and we have adopted that principle, that we will have

the Canadian National operating this as part of the system, but to the extent that it loses money in doing so the State will contribute to the revenue of the Canadian National to offset that loss.

Hon. Mr. STEVENS: That is for the statutory reason.

Hon. Mr. DUNNING: No, for the whole thing. There was no question of that in the House last year

Sir EUGENE Fiset: I think I will go further, Mr. Chairman. Even if we accept Mr. Stevens' suggestion, you will still be compelled to prepare a special report as far as the Eastern lines are concerned, in order to comply with the provisions of the law.

Mr. CANTLEY: Mr. Chairman, the exposition of the Act of last year as outlined by the Minister, I think, is quite correct, but I may say this: I did not recognize that at the time the Act was passed. I thought it only dealt with the deficit that would arise through the five per cent.

The Acting CHAIRMAN: I thought so too.

Hon. Mr. DUNNING: If you will refer to Hansard, you will see that I specially stressed that as a principle.

Mr. CANTLEY: That may be. Now, allow me to go back to page 2 and the second paragraph.

Mr. STEWART (Leeds): My idea as to Mr. Stevens' proposition is that when you come to present to Parliament a report you should include the whole operation; a summary, as it were; an annex, an appendix, something that sets out the whole situation with regard to the Eastern lines, so that we know the net result of the operation.

Sir HENRY THORNTON: I should object seriously to that, because it creates an unfair operating result as far as the Canadian National is concerned. Certain reductions in freight rates were made with respect to the Maritimes and a certain Statute was passed which prescribed how the account shall be kept. If we are obliged to include in our operating account the losses which are placed upon us through the operation of the Eastern lines, it makes a still worse picture; it does not accurately reflect the situation and will certainly very seriously affect the feelings that a great many of us have with respect to what we are trying to accomplish. I think it is unjust and unfair to the National Railway system.

Hon. Mr. STEVENS: Sir Henry, up until July last, you included in your statement, the full picture of the Eastern lines?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: From July last—

Hon. Mr. DUNNING: Always under protest.

Hon. Mr. STEVENS: Mr. Minister, will you please permit me to complete my statement?

Hon. Mr. DUNNING: But always under protest. I should say that in fairness.

Hon. Mr. STEVENS: Frankly, I cannot understand—I have made my statement and I cannot understand the contention at all. I do not agree with this clause under these circumstances. I have tried to make myself clear, and this is the first time I have had occasion to sharply differ from Sir Henry, but I do. I shall say no more. I have tried to make myself clear, and it is impossible.

Sir HENRY THORNTON: Please do not understand that I in any way resent any difference of opinion. We may have our differences of opinion, and they may be honest differences, but I want to assure Mr. Stevens that I have heard all that he has to say with the utmost courtesy, and everything of that sort.

Hon. Mr. STEVENS: I was referring to the Minister's interjection.

Hon. Mr. DUNNING: I am sorry if in any way I have offended Mr. Stevens.

Hon. Mr. STEVENS: You are not offending, but Good Heavens why cannot you let a person put a question to the President of the Railway without cutting across it so that it is an unintelligible question when it gets on the record.

Mr. McLEAN (Melfort): I do not think that is a fair statement at all.

Hon. Mr. DUNNING: Then I apologize to Mr. Stevens abjectly, and I ask him to be kindly guided by his own advice. Now, I apologize abjectly, and will not say another word.

The Acting CHAIRMAN: Mr. Stevens was about to discuss this matter with Sir Henry Thornton, and I will be very much obliged if he will continue, and I will see that he is not interrupted.

Hon. Mr. STEVENS: The question I was trying to ask Sir Henry Thornton was this: Previous to July, 1927, the Eastern Lines' accounts, operating and such like, were reflected in a composite statement presented to Parliament. In July, 1927, the Maritime Freight Rates' Act came into operation. From that date, separate accounts were kept?

Sir HENRY THORNTON: Right.

Hon. Mr. STEVENS: In the period previous to 1927, such deficits as occurred appeared in a composite view of the main statement. Now then, I ask this: From July, 1927, to the end of the year, the Maritime Freight Rates' Act, the statutory rates applied, causing a certain reduction in rates, provided for by an equal amount to meet the loss in the way of a contribution from the Crown. Had you included in a composite statement the statutory loss, with a corresponding item of statutory revenue, or a revenue equal to the statutory loss, and the normal loss, your present statement would have shown an added loss to what it does at the present time. That is true, is it not?

Sir HENRY THORNTON: Undoubtedly.

Hon. Mr. STEVENS: Therefore, my contention is that the present composite statement does not reflect the correct view of the operation of the Canadian National Railways in the same manner as it did before July, 1927, and prior to the operation of the Maritime Freight Rates' Statute?

Sir HENRY THORNTON: That is true, with respect to that point, but may I just say this on the other side. In putting in our accounts as they have been presented this year, we are following the instructions of Parliament. I do not question whether that is right or wrong, but I do say that in the presentation of our accounts we are proceeding as instructed by law.

Hon. Mr. STEVENS: I am making a statement now, Mr. Chairman, rather than putting a question. It is this: that the injunctions imposed upon you in the Statute apply to the accounting, and do not apply to the presentation of the annual statement.

Sir HENRY THORNTON: I do not know that I could discriminate between the two, Mr. Stevens. We must present the report in accordance with the instructions we receive. We cannot present one kind of report and then another kind of accounts. This law has been read two or three times. I do not think I need read it again.

Mr. CANTLEY: It is a question of interpretation of the law.

Hon. Mr. STEVENS: I think we can get closer if I say that I agree with you wholly that it imposes upon you a duty to keep the accounts separate, for the purpose of ascertaining what the statutory loss is.

Sir HENRY THORNTON: Then maybe I can make a shortcut that will get us all straight. Would you feel satisfied if these two sets of figures in the red and yellow books were included in the same binding?

Hon. Mr. STEVENS: No, it would not make a bit of difference. That would be only one plaything instead of two. If the figures appearing in the yellow binding, of the Eastern lines, are included in whatever form the accountants may desire in the total figures of the main statement before the final balance is struck, that is what I ask, and what I contend should be done.

Sir HENRY THORNTON: Well, I expect we could argue that indefinitely, without coming to any conclusion. The whole thing turns upon whether you say this Statute instructs with respect to the preparation of the accounts and does or does not instruct with respect to the presentation of the report. That is the only difference, as I see it, between us, is it not?

Hon. Mr. STEVENS: No, I am sorry I cannot agree with you, Sir Henry. I think that only refers to the keeping of accounts separate as far as account books are concerned, for what purpose? To ascertain how much the Government of Canada is to pay in relation to the losses set up by the enactment of that Statute. That is, of the accounting injunction.

Sir HENRY THORNTON: Then, who do you think should determine how the report should be presented?

Hon. Mr. STEVENS: I think the President, and Board of Directors of the Railway will determine that. It is then a question of whether we will accept it.

Sir HENRY THORNTON: Then that cuts it down to a definite point. The directors and myself concluded that that was the best way to do it. If this Committee differs, that is for the Committee to say.

Hon. Mr. STEVENS: Then we come to this: I, from my standpoint, could not agree to the clause now under consideration on page 3. That is the point in my discussion.

Sir EUGENE Fiset: Mr. Stevens, is not your object to ascertain if the railway is complying with the clause contained in the Statute?

Hon. Mr. STEVENS: No, I am concerned in whether the composite account reflects the Railway returns of this whole system.

Sir EUGENE Fiset: Therefore, you do not take into consideration that in the estimates submitted by the Minister to this Committee, he takes into account not only the deficit on account of freight rates as far as the Canadian National is concerned, but also the other railways?

Hon. Mr. STEVENS: No.

Sir HENRY THORNTON: Mr. Stevens really I think is quite right in saying this, that we are relieving ourselves of a certain deficit with respect to the Eastern lines which, prior to the passage of the Maritime Freight Rates Act, we bore. That is correct?

Hon. Mr. STEVENS: Quite.

Sir HENRY THORNTON: But I know of no reason why we should not accept our good luck along with our bad luck. We always have to stand the bad luck, and I do not see any reason, if Parliament passes an Act which relieves us of that deficit, why we should not accept that relief.

Hon. Mr. STEVENS: Sir Henry, what is to hinder the management of the road now, or in the future, from treating some other operation in the same way that you have treated the operations of the Eastern lines and the Central Vermont? After all, what is the object of this Committee, and what is the object of Parliament scrutinizing these accounts? One object only, or two objects, shall we say; one is to get an idea of how we are going along with our huge investment. Secondly, to bring pressure to bear upon the President, the directors and the management to get out of them the best that is in them.

Sir HENRY THORNTON: True.

Hon. Mr. STEVENS: That I think, might be stated as to another: If we are to have by one method or the other, bad luck or bad territory deleted, and have presented to us a view which after all goes out as the whole view, whether it is accurately so or not, to the people, deleting from it these other two elements, then the people are not going to get a correct idea of how their big investment is working out. Now, I wish to say at once, I am not saying this with the idea of reflecting on the management. After all, the management surely are going to be in a better position if they can keep the people posted on exactly the correct result of their operation.

Sir HENRY THORNTON: One of the reasons why this was presented separately—and I certainly thought, speaking personally, that it would present a more forceful picture if presented separately than if they were presented together—is that the public would see exactly from this yellow report (indicating) what the Maritime Freight Rates' Act is costing, and what the operation of the Eastern lines represents, and it would be a more eloquent expression of the situation, than if it were generally buried in the composite.

Hon. Mr. STEVENS: I would not say generally buried in it by any means. I would put it in the main account, in a distinct form. My friend Mr. Cooper could put it in, I know. He knows exactly how it should be put in; kept separate in its details, but put in the main result, indicating where that loss is, and what that loss is, and including it in the main statement. I also have the same observation to make regarding the Central Vermont, because, although the Central Vermont is now in the hands of a receiver, I still believe that we, as shareholders in this company, with \$33,000,000 invested in the Central Vermont, are entitled to have shown in our returns just whether we have got a loss or a profit, or what our prospects are instead of deleting that as well.

Sir HENRY THORNTON: By the time the next report is made, the Central Vermont will be included as usual in the Annual Report of the Canadian National Railways, because by that time the receivership will almost certainly have been lifted.

Mr. McLEAN: To my mind, the whole trouble seems to be that Mr. Stevens is not going far enough in his argument regarding the legislation passed last year. Parliament and the country said "we are not only willing to pay the deficit due to the 20 per cent reduction in the Maritime Rates, but also on account of certain conditions in those lines and in the country, we are going further, and we will recoup to the National Railways the total deficit from that line." Now, as I understand Mr. Stevens' argument, it could be met to some extent if the deficits were kept in two separate accounts in the yellow book. That is, the deficit due to the 20 per cent reduction, and the deficit due to conditions outside of that entirely.

Sir HENRY THORNTON: They are so kept now.

Mr. McLEAN: That shows to the country the loss on the Eastern lines. Then there is nothing further to carry over to the red book because Parliament has distinctly said they are going to take that off the shoulders of the National Railways, and off the territory served by the Eastern lines, on account, not of some sentimental or charitable feeling towards that territory, but on account of conditions that have existed for a number of years, and have been protested against for a number of years. If Parliament has taken that attitude, I do not think it is for us to question it in this Committee. It was not questioned last year.

Hon. Mr. STEVENS: It was not in existence last year. It all came into existence in July, 1927.

Mr. McLEAN: No, the legislation was passed last year, and Parliament did not object at the time. In fact, Parliament passed it. Consequently, there is nothing to carry forward from the yellow book to the general account, because Parliament has made it a distinct property, and paid for it in another manner absolutely. Until there comes a time when there is a surplus to carry forward, there is nothing to show. And, there is no reason why the other portions of the line should be confused by carrying forward something that Parliament is dealing with as a separate property.

Sir HENRY THORNTON: May I say this, Mr. Chairman. I think this discussion has been illuminating, and a good many points have been brought out, which perhaps were not fully appreciated before. Certainly, as far as the railway is concerned, I am very grateful to Mr. Stevens for the points to which he has called attention. I think we can discuss this more or less indefinitely here, without reaching any very exact conclusion, but I think we can meet the situation by this statement: That so far as the railway is concerned, I will take into full consideration all that Mr. Stevens and other members of the Committee have said. I would like to think about this, and see if we cannot devise some way which will give to the people of Canada the complete exposition which Mr. Stevens wants, without prejudicing the standing and the financial performance of the railway. But, it is a pretty difficult thing to decide right here what we should do. I would like first to think about it, and in consultation with him, and Mr. Harris, and yourself (meaning the Chairman) and others, see if we cannot hit upon some way of meeting what everybody wants. Certainly, we have no desire to conceal anything. We want to get as fair a picture as we can. It is a hard thing to settle in a few minutes' conversation, but I do feel that there is much merit in what has been said, and we want to meet the views of those who have so expressed themselves.

Hon. Mr. DUNNING: Mr. Chairman, there is just a word or two I want to say with regard to this matter. As I have gathered the feeling of the Committee, in previous years, it has always been that we should, as far as possible, put this property on a fair basis in relation to those who are working the property for us. In order that they might have the incentive of having a fair load, and not an unfair load. It was because of that attitude on the part of the Committee in the comparatively small number of years that I have been associated with it, that in proposing the Maritime Rates legislation of last year, the Government decided to take the whole load of Maritime Province deficits off the shoulders of the railway operations. In effect, what we are doing is precisely what this Committee has been striving for in connection with other matters, notably with respect to the size of the capital account of the road; we are trying to give to those who are operating it a fair chance, and nobody dreams that the operation of the Maritime lines can be put upon a profitable basis of operation, apart altogether from the question of the twenty per cent. Now, if Sir Henry for he management withdraws from the previous position of desiring to have the officers and employees given a fair chance—as you know, it was representations of that kind which were the basis of the Maritime Rates Act, the position of course; but you would be going back to the previous position which was, I think, properly complained about for several years prior to this at least in relation to the deficit portion of it, the Government might reconsider adjustment which we are now discussing.

Sir HENRY THORNTON: I would not think, Mr. Dunning, of changing the character of the accounting, or anything of that sort, but I just had in my mind, whether on further and more mature reflection, it would not be possible to find some way of presenting these figures which would be satisfactory to every one, including of course, ourselves.

Hon. Mr. DUNNING: With respect to the payments by the Government as designed by the Maritime Freight Rates' Act, they were designed to give the Canadian National Railways a chance to make a fair showing, having regard to the conditions from one end of the country to the other, and taking into account the special conditions applicable to this section of the country. Now, naturally, as Minister, and speaking for the Minister of Finance, he would be quite relieved if this Committee desired that the special provision under the Maritime Freight Rates' Act, with respect to deficits on Eastern lines, were eliminated, and did not involve a direct charge on the revenue of the country every year, but I still think the principle of the Maritime Rates' Act is sound, and I still think that it presents a more accurate picture of what the Maritime lines represent than could be presented to the shareholders throughout Canada in any other way. Each year, by virtue of that Statute, there is presented to Parliament, separate estimates, two separate amounts for the Eastern lines, one amount showing the deficit attributable to the 20 per cent reduction, the other amount showing the balance of the deficit on Eastern lines, both of which combined represent, under that law, a definite contribution by the Government, to the revenues of the Canadian National Railway, in order that that part of the system which has such a peculiar problem of its own may be viewed entirely separately from the balance of the system, and should not represent a handicap upon the natural aspirations of the men running the system to make a good showing on the basis of standard railway operation.

Hon. Mr. STEVENS: Well, all I have got to say is, I do not want the Minister to leave the impression that what I am seeking to do is to embarrass the officers of the company, simply by asking this question. I am not going to argue the point any further, but I do resent that suggestion.

Hon. Mr. DUNNING: Mr. Chairman, I made no such suggestion. I dealt with the subject on the basis of principle.

Hon. Mr. STEVENS: It was the whole burden of your remarks, Mr. Minister.

Hon. Mr. DUNNING: I wonder if Mr. Stevens would now apply his own rule, and let me finish without interruption.

Hon. Mr. STEVENS: Go ahead.

Hon. Mr. DUNNING: The whole point that I make is that the purpose of this legislation originally, and the application we have of it before us to-day is to relieve the system as a whole of an unfair burden, a burden, which, from the point of view of the Confederation Compact was a burden of Canada, and apart from railway operation by a company or a corporation, and we were there as I told Parliament last year, proposing to recognize the operation in that regard. I did not intend to reflect at all on Mr. Stevens' motives.

Hon. Mr. STEVENS: The point I am getting at in the record is this; I take it from the Minister's remarks, that the suggestions I have made will be taken as indicating a desire to hamper the authorities in carrying out—

Hon. Mr. DUNNING: No, no.

Hon. Mr. STEVENS:—or giving them a fair chance—to use his own language—of making a success of the road.

Sir HENRY THORNTON: I did not interpret them in that way.

Hon. Mr. STEVENS: Long before the Minister came here, the National Railways had not one more anxious to see them succeed than I was and am, and there is not one from the President down but will agree with that statement. On the other hand I am not receding from the position I have taken, that the accounts as presented do not reflect accurately and fairly to the people of the country who are the owners of the road, the accurate situation. That is the position I take, and under these circumstances, I certainly will not agree with the clause which is before the Committee.

Sir EUGENE Fiset: Mr. Chairman, even if the Canadian National Railways comply with Mr. Stevens' wishes and the Departmental point of view, and in view of the fact that the Railway Department has to provide in the Annual Estimates for what is necessary to comply with it, you will have then to give a separate statement of the operation of the Eastern section? I ask for information, and I think you will have to prepare both reports if that is decided upon.

Sir HENRY THORNTON: I thought we had to prepare two separate reports. However, that is another matter. But, let me hasten to say to Mr. Stevens that as far as the Railway is concerned, certainly we have always regarded him as a friend of the property, and I have not the slightest feeling about anything that he has said this morning; not the slightest. I want to make that quite clear.

Mr. McLEAN: Mr. Stevens, in view of the very frank discussion we have had on adopting a report, at a session not including evidence, would you be in favour of deleting from the record the discussion of this clause?

Hon. Mr. STEVENS: Why?

Mr. McLEAN: You seem to think that possibly reflections were intended during the discussion.

Hon. Mr. STEVENS: I do not see why it should be deleted from the record.

Mr. McLEAN: It does not include matters of evidence. Other committees, in discussing the adoption of a report, frankly, as we have done this morning, do not keep a record. I sat on a committee preparing a report, and we sat in camera, and kept no report. I do not see that there is much value in it.

Hon. Mr. STEVENS: I do not care what you do.

Mr. McLEAN: Would you support me in the request that the discussion be deleted?

Hon. Mr. STEVENS: No, I would not. That does not hinder you from asking, though.

Mr. McLEAN: I would not like to ask that unless I had your support.

Mr. CANTLEY: In regard to the second paragraph on page 2, the word "ending" at the end of the third line, and again at the beginning of the last line. I suggest that word should be "ended"; past tense instead of future tense.

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: Take the word "modify," two lines before that. Should not that word be "incomplete form" instead of "modified form"? Would it not be more correct to say incomplete form than modified form?

Mr. HENRY: Last year, of course, the Central Vermont was included for the full year. It is just a question whether that was strictly proper or not, as we only own 67 per cent of the stock.

Mr. CANTLEY: But still the accounts are incomplete.

Mr. HENRY: It was shown separately last year.

Mr. CANTLEY: I may be wrong.

Mr. HENRY: And it is modified to the extent of not being shown this year in the accounts, on account of the receivership.

Mr. CANTLEY: Take the next paragraph. "The evidence adduced from the officers of the railway disclosed the fact that the chief reasons for the less favourable showing were a reduction in freight rates and an increase in expense due to increase in wages and because of somewhat larger expenditures on maintenance of way and structures." I had the idea that the greatest element was the increase in wages, rather than the reduction in rates.

Sir HENRY THORNTON: There were really two major things, the increase in wages and delayed crop movement.

Mr. CANTLEY: But the increase in wages was the larger element?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Then I would emphasize that by putting it first.

Sir HENRY THORNTON: I think that is a good suggestion. Just reverse the order.

The CHAIRMAN: The next paragraph is, "Your Committee is gratified to observe the continued improvement in the earnings of the Company's hotels—

Mr. JELLIFF: Could we not act on that first clause on page 3? There is only a question of policy, as to the presentation of the general account. The other question that Mr. Stevens brought up was a question of policy.

Sir HENRY THORNTON: As a matter of fact, I think what Mr. Stevens was talking about related more to next year than to this year, because this year's accounts are in and closed. They have been presented in a certain form and they cannot be changed.

Mr. McLEAN (Melfort): And, further, they have to be dealt with according to the statute, which may be interpreted according to the opinion of the officers.

Hon. Mr. DUNNING: There is no question of the interpretation of the statute at all.

Sir HENRY THORNTON: I do not think so.

Mr. McLEAN (Melfort): The interpretation of the statute should certainly not come from this Committee.

Hon. Mr. DUNNING: I would suggest, if the Committee desires, to draw attention to the fact that there is a separate statement for the Eastern Lines.

Sir HENRY THORNTON: You had a suggestion to make, Mr. Henry?

Mr. HENRY: (Reads):

Your Committee is also satisfied, from the evidence given, that the accounts for the year 1927, which show the operations of the Eastern Lines separately for the last six months thereafter, as presented are in accordance with the prescribed practice of railway accounting, and reflect accurately the revenues and expenditures made during the year, as well as the additions to the capital account during that period.

Hon. Mr. DUNNING: Would that not come in better farther down than where you have it? After the word "and" in the third line put in, "and together with the separate statements respecting Eastern Lines reflect accurately."

Mr. HENRY: I think perhaps that would be better.

Sir EUGENE Fiset: Would it not be better to say, "and taking into consideration"? It seems to me that you are reflecting Mr. Stevens' argument.

Hon. Mr. DUNNING: I am not concerned with reflecting his argument. I want to get at the facts in the report, whatever they are.

Mr. McLEAN (Melfort): I think the Minister's words are the simplest and most concise.

Hon. Mr. DUNNING: Read it all.

Mr. HENRY (Reads):

Your Committee is also satisfied, from the evidence given, that the accounts for the year 1927, as presented, are in accordance with the prescribed practice in railway accounting, and, together with the separate statement respecting the Eastern Lines, reflect accurately the revenues received and the expenditures made during the year, as well as additions to the capital during the year.

The CHAIRMAN: (Reads).

Your Committee is gratified to observe the continued improvement in the earnings of the Company's hotels and to learn from the officers of the Company of the indirect benefit resulting from the operation of the hotel system.

Your Committee has already, in its Third Report, referred to its consideration of Bill 204, "An Act respecting the Toronto Terminals Railway Company."

Your Committee notes that the requirements for the present year, exclusive of the Eastern Lines, amount to \$39,000,000, as compared with the requirements asked for last year of \$22,500,000 for the nine months ending December 31, 1927, including the Eastern Line. The chief reasons for the increase are the twelve months' period as compared with the nine months' of last year, increased interest, and a larger program of additions and betterments, which was examined by your Committee and found to be reasonable.

From the evidence given, your Committee is of the opinion that the amount of \$39,000,000 is necessary for the purposes of the Company during the year 1928, and should be passed by the House.

That is all for the Canadian National Railways. The next the Canadian Government Merchant Marine. (Reads):

Your Committee has had under consideration Item 409 of the estimates which provides for a loan of \$758,000 to the Canadian Government Merchant Marine Limited, and has, in the course of its deliberations, examined the operations for the year ending December 31, 1927. Your Committee notes that the results of the operations have not been quite as favourable as those for the previous year, due to a highly competitive situation, which resulted in a reduction of freight rates in certain directions, with a resultant reduction in the gross revenue of the Company.

Your Committee notes that the amount asked for, viz: \$758,000, is to be used to the extent of \$750,000 for contemplated deficits and \$8,000 for betterments, and is of the opinion that this amount is necessary and should be granted by the House.

Mr. CANTLEY: There is just one point in connection with that, as I referred to earlier in the meetings of the Committee. I think it has been shown that vessels under 8,000 tons capacity cannot be operated profitably, and I feel that the Government should sell all those vessels under 8,000 tons.

Sir HENRY THORNTON: If it meets the judgment of the Committee, I should say that that suggestion might be left to our judgment to review the situation, and see how soon we could get rid of those boats, or what we ought to do in connection with your suggestion. I think it would be unwise that that should appear as a mandate to the officers of the Company. No doubt there is much truth in what Colonel Cantley says, that you cannot operate a small vessel, under present marine conditions profitably, but I think it would be a mistake to put the Merchant Marine officers under a mandate to do that immediately.

Hon. Mr. DUNNING: Would you undertake to review the whole situation?

Sir HENRY THORNTON: I do not know just how it would work out.

Mr. CANTLEY: I suppose we could change that and say that the Committee further recommends the consideration by the management?

Mr. JENKINS: What tonnage are the boats operating from Montreal to St. John, N.B.?

Mr. HENRY: One steamer of 2,800 tons.

Mr. CANTLEY: That is a special service and I think it is worth while. The other boats that are in the general trade cannot be operated profitably. I have operated a fleet of 75,000 to 100,000 tons of shipping for twenty years, and I have had boats in all ports of the world. You had five of them laid up last winter at Halifax for various purposes, and they are eating their heads off. Let us wipe that off and get clear of that obligation. Eight thousand and 10,000 ton boats do perform a service for the trade of this country, and, to a certain extent, to the railway, but boats below 8,000 tons cannot and do not do any good to us at all.

Mr. McLEAN (Melfort): Would it be better to suggest that the management take under consideration the policy of getting rid of the least profitable boats in the service, with a view to retaining only those that are able to compete in an up-to-date manner?

Mr. JENKINS: If we operated the railways in the same way, we would cut off the whole eastern lines.

Mr. CANTLEY: You cannot do that, as you have a contract with the Maritime Provinces.

Mr. JENKINS: Our boats are feeding the railway system to a certain extent, and also developing trade, and I think it would be a great mistake to cut off some of those smaller boats.

Sir HENRY THORNTON: I think Colonel Cantley means that we should review the Canadian Government Merchant Marine and see if we cannot formulate some policy to bring in greater efficiency. That may mean the scrapping of some of the smaller boats; it may mean building some new boats, or it may mean one of several things, but we ought to review the Canadian Government Merchant Marine from the point of view of deciding what our policy would be with respect to the whole thing.

Mr. JENKINS: We surely have confidence that the management are doing that now?

Mr. CANTLEY: I am content to let it go on the understanding that the management will take up that question, and I hope they will deal with it before we are called again next year.

Hon. Mr. DUNNING: There is just the report on the third paragraph on page 2. The only thing that is required is just the question of turning it tail first.

The CHAIRMAN: The substance is the same.

Mr. McLEAN (Melfort): That has been recorded in the report of this meeting.

Mr. CANTLEY: There is just one point further with regard to the discussion that took place with the hon. member from Vancouver. I think there is something in his contention, and I think that members of the Board here are likely to accede to his point. I fancy when you present your accounts next year there will be a closer approximation.

Sir HENRY THORNTON: I still maintain that, in accordance with the reading of the statute as I understand it, the reports this year have been presented as they should be. I am the last person in the world to refuse to look at a suggestion, and if there is any way in which, on more mature thought, we can preserve the character of our accounts, and present a true picture, I am perfectly willing to do anything, provided, of course, that we do not sacrifice anything. It is something that would be exceedingly difficult to settle in an argument here in this room this morning. You might talk for a couple of weeks on it and still not get anywhere. Somebody has got to sit down and get their head thinking about it a little.

Mr. CANTLEY: When you prepare your next report, I think you will be able to settle it, in the light of the discussion.

Sir HENRY THORNTON: Rest assured that I am not giving away anything, and I do not intend to.

Hon. Mr. DUNNING: In that regard, the whole question comes down to this: does this Committee approve of the separate voting by Parliament of that portion of the Eastern Lines' deficit which is not caused by the 20 per cent rate reduction? That is really what it comes down to. If this Committee cared to make a recommendation that that portion of the deficit should not be voted, then the whole question settles itself. It is not a question of accounting, it is a question of whether we are going to pay that to the railway or not.

Sir HENRY THORNTON: I think Colonel Cantley has got the right end of the stick. If you will leave it alone, we will get the thing straightened out some way.

Mr. JELLIFF: Could these two reports be put in the one cover, and then a sort of general recapitulation made?

Sir HENRY THORNTON: We have always felt that the deficit on the so-called Eastern Lines was a considerable burden on the company, which ought to be dealt with in some different way from what it has been in the past.

Hon. Mr. DUNNING: You never did agree to accept the Hudson Bay line on the same basis?

Sir HENRY THORNTON: No, and I would not. I would fight to the death against accepting it.

The CHAIRMAN: It is in order for somebody to move adoption of this report.

Mr. JENKINS: I move the adoption.

Mr. CANTLEY: I second it.

Motion agreed to.

Hon. Mr. DUNNING: I think we should adjourn to the call of the Chair in case anything should arise that we cannot foresee now.

Witnesses retired.

The Committee adjourned.



